THE TEXT IS LIGHT IN THE BOOK

CONTEMPORARY AMERICAN MARKETING

Harper W. Boyd, Jr.
and
Richard M. Clewett

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Readings on the Changing Market Structure

Edited by HARPER W. BOYD, Jr., Ph.D.

Professor of Marketing

and RICHARD M. CLEWETT, Ph.D.

Professor of Marketing

Both of School of Business,
Northwestern University

Revised Edition
1962

RICHARD D. IRWIN, INC., Homewood, Illinois

REVISED EDITION
First Printing, July, 1962

Library of Congress Catalogue Card No. 62-18176

PRINTED IN THE UNITED STATES OF AMERICA

PREFACE

Over four years ago the first edition of *Contemporary American Marketing* was published with the intent of bringing some of the dynamics of the marketplace into the classroom. Since that date the marketing scene has witnessed great changes, most of which were duly reported in trade publications. Thus, it was thought desirable to produce an almost totally new (only one article from the earlier book was used) readings book. Fortunately, the publisher agreed with our thinking.

Our intentions regarding the use of this book have not changed since the publication of the first edition; namely, its use with a basic textbook. The articles provide concrete illustrative case material in depth. They bring life to the text material and make for a more interesting and lasting learning experience.

The selection criteria for the readings contained in this book were as follows:

1. The article should center or focus upon the actual marketing problems of a given firm.
2. The illustrations should involve those firms and products with which the student can identify readily. A reasonable balance between consumer and industrial goods was sought.
3. The materials must fit into the framework of a majority of basic texts and, therefore, should center around major marketing areas. This book is divided into eight major sections as follows: (I) Nature and Scope of Marketing; (II) The Market for Consumer and Industrial Goods; (III) Product and Product Line; (IV) Channels of Distribution, Including Retailing and Wholesaling; (V) Physical Aspects of Marketing; (VI) Advertising and Personal Selling; (VII) Price Strategy; and (VIII) Legislation. Several of these major sections are further subdivided.
4. The articles should be as recent as possible if only to overcome the inevitable student distaste for anything which happened a few years back.

In our search operation we covered a great number and variety of publications. Each year the number of marketing sources seems to increase, which may reflect either—or hopefully both—the growing importance of the subject or the broader horizons of the authors. Articles from eighteen sources are included, and the authors would like to take this opportunity to express their gratitude to the editors of *Advertising Age*, *Business Week*, *Department Store Economist*, *Dun's Review and Modern Industry*, *Fleet Owner*, *Food Business*, *Food Topics*, *Forbes Magazine*, *Fortune*, *Industrial Distribution*, *Industrial Marketing*, *Journal of Marketing*, *Mod-*

ern Materials Handling, Nation's Business, Printers' Ink, Sales Management, Super Market Merchandising, and *The Wall Street Journal,* who, in the final analysis, made this book possible.

We are indeed sorry that an overseas assignment prevented our colleague and close friend, Ralph Westfall, from participating in the revision. We missed his help sorely and hope he will join us in the next revision. We owe much to C. Robert McGoldrick, who gave us much needed assistance in processing the manuscript.

Harper W. Boyd, Jr.
Richard M. Clewett

Evanston, Illinois
March, 1962

TABLE OF CONTENTS

I. NATURE AND SCOPE OF MARKETING

II. THE MARKET

For Consumer Goods

For Industrial Goods

III. PRODUCT AND PRODUCT LINE

IV. CHANNELS OF DISTRIBUTION

Retailing

Wholesaling

VIII. LEGISLATION

PART ONE

NATURE AND SCOPE OF MARKETING

The Competition That Refreshes*

BY ALVIN TOFFLER

Charlie Brower, the shock-haired president of Batten, Barton, Durstine & Osborn, ambled to a microphone recently to address the executives of over 500 companies, all passionately dedicated to supplying thirsty Americans with a sweet, brown, bubbly beverage called Pepsi-Cola. Last year 10,000 blue-uniformed Pepsi salesmen thrust into the outstretched hands of a seemingly parched American public 6.5 billion bottles of their product. But this happy achievement paled into insignificance alongside the larger possibility held out to the audience by Brower. The new 1961 advertising campaign that B.B.D.O. had devised for Pepsi, Brower modestly allowed, not only had the potential of "knocking you off your seats right here into the aisle, but of knocking your fatheaded competitor off his undeserved pedestal forever!" The words fell like music on the ears of men whose business lives are lived under the towering shadow of Coca-Cola—which year after year sells even more prodigious quantities of its own sweet, brown, bubbly beverage. His listeners roared approval as Brower called them "veterans in the war against Coca-Cola," and demanded unstinting support of the new advertising campaign. Any slackness, he warned, would be "giving aid and comfort to the enemy."

Such martial language has in recent years become a standard part of Pepsi rhetoric. Military terms drip from the lips of Pepsi executives and route men. They speak of "invading" Coke's markets, of developing new sales "weapons," of turning their salesmen into "shock troops." Overseas Pepsi even has a flying squad of salesmen they call their "Panzer Unit." One Pepsi official, with only a suggestion of a twinkle in his eye, says: "You ought to hear our sales-training courses. The men are taught to go out there and hate!"

To all this saber rattling Coca-Cola men react with injured dignity. From Board Chairman William E. Robinson down to the most recently hired truck driver, they do not deign to speak of Pepsi by name. They refer to it as "our imitator" or "our chief imitator." A Pepsi director not long ago was snubbed on the main street of his home town by the local Coke bottler, a man with whom he had gone to school years before. One

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Coke vice president, more demonstratively militant than most of his fellows, says, "Confidentially, we think our competitors are bastards." The accent is on the "confidentially."

What the two companies are fighting over with such zeal is a market far richer and faster growing than most outsiders suspect. A fleet of 130 aircraft carriers, all of them the size of the *Enterprise*, could float in the effervescent ocean that would be created if all the soft drinks consumed by the U.S. public in 1960 had been dumped in a single pool. To put it numerically, Americans in 1960 bought 33.6 billion bottles of carbonated beverages. This is an intake rate of nearly 200 bottles for every man, woman, and child in the country. The U.S. public paid an estimated $2.8 billion at the retail level for bottled soft drinks. This figure does not include the additional $400 million paid for non-bottled soft drinks across the counters of 150,000 soda fountains. Cola drinks account for over 60 per cent of all bottled soft drinks sold in the U.S., and between them Coke and Pepsi have 85 per cent of the U.S. cola-drink market.

And Americans are not the only ones who get thirsty. The foreign market, too, is vast and growing, especially where the climate is hot and the gullets dry. Just how dry gullets can get is suggested by sales of soft drinks in the tiny sheikdom of Kuwait, where only 200,000 people last year polished off 67,200,000 bottles for a per capita intake of 336 bottles. This makes New York City, for example, with a per capita rate of 150, look backward and undeveloped by comparison. Coke derives 40 per cent of its soft-drink sales from abroad. Pepsi's foreign sales are about 30 per cent of its total. The proportion in both cases is rising fast.

The Gaudy Umbrella

Until 1950, Pepsi raised hardly a flicker of recognition in Coke's consciousness. Since then Pepsi has mushroomed from sales of $38 million to $158 million in a decade, and the battle between the two has become one of the marketing dramas of our time. Leaving aside its newly acquired Minute Maid division, which is not part of the soft-drink industry, Coca-Cola last year rolled up sales of approximately $360 million. It netted a profit of nearly 10 cents on each of those dollars. Pepsi still has a long march to make before it can come even close to that performance, and the steep rate of climb it enjoyed in the early Fifties has slowed down. Although last year was the first in ten in which the company failed to register a sales gain, Pepsi's warriors still hope to catch Coca-Cola someday.

To comprehend the character of this competition at all, one must grasp the fact that both companies, although they do some bottling and distributing of their final products, are primarily in the business of selling flavor base. Domestically, for example, Coke sells a sirup that 1,065 franchised Coke bottlers and thirty-five company-owned bottling plants convert into the familiar drink by adding carbonated water. It also sells

sirup to about 2,500 wholesalers who resell it to fountain operators. Overseas Coke distributes to its 600 bottlers and fifty-four company-owned bottling operations a concentrate that is the same sirup minus sugar and water. Pepsi sells concentrate rather than sirup both here and abroad. Domestically it has 516 franchised bottlers and twenty-two of its own bottling plants. Abroad it has 228 bottlers and twelve company-owned bottling installations.

But the manufacture of sirup or concentrate is only a minute part of the job of the so-called parent company. Each product, itself, remains fixed from year to year and production methods do not change much. The real fight between the two companies is not in production but in merchandising. The parent company's energies go toward providing leadership, technical assistance, moral encouragement, and sometimes even funds for its bottler corps. It must plan a promotion effort. Most important, it must create an advertising "umbrella"—a massive national or global advertising campaign that not only embodies its over-all strategy, but is so organized that the bottlers can fit their own local advertising efforts into it. It is Pepsi's merchandising that has raised it to the position of a formidable competitor, reinvigorating the whole industry. As one Coke bottler summed it up: "The Pepsi surge was a blessing to Coca-Cola. It created so much more consumption. It should have happened earlier."

The Effervescent Mr. Steele

The strikingly different ways in which Coke and Pepsi have gone about their roles are rooted in the contrasting temperaments of two men who knew and disliked each other: Robert Winship Woodruff, for nearly forty years the biggest individual stockholder and dominant personality in the Coca-Cola empire, and the late Alfred N. Steele, the big, flamboyant, and talented advertising man who, in 1945, left Coke's advertising agency, D'Arcy, to go on Woodruff's payroll as vice president in charge of bottle sales. In the words of Coke's house egghead, Delony Sledge, Steele "could talk the horns off a brass bull." He was a man of grandiose ideas, a man who was unhappy unless he was in some way playing it big.

In 1948, for example, Steele arranged for a presentation of the coming year's sales program to be made at a convention of Coke's bottlers. He arranged for a skit to be acted out. It was to be the biggest, the best, the most elaborate, the most exciting pep skit any sales meeting anywhere had ever seen. But at the last minute something went wrong with the complex electrical system Steele had set up in the auditorium. Actors, carrying walkie-talkies to transmit their voices through the hugh meeting hall, couldn't be heard at all. The audience tittered as it saw only wild and meaningless gesticulations up front. The whole thing was a disaster. That, remembers a man who knew him, was Steele all over. "If he connected he could be magnificent. If he flopped, nothing flopped worse."

This kind of ebullience couldn't have been better calculated to rub Woodruff, himself a restrained and taciturn man, the wrong way. Even when Steele's rambunctious showmanship "connected," it was just barely tolerated in the sedate executive offices of the company on North Avenue in Atlanta. When it flopped, one could almost sense Woodruff stiffening. And when Woodruff stiffens, Coca-Cola executives freeze. By late 1948, Steele had been packed off to Coke's version of Siberia. "No mail, no phone calls, no meetings," says one man who was there at the time. But Steele wouldn't take the treatment. Before a year was out Steele had gone to work for Pepsi-Cola, then in the midst of profound crisis.

Escape from Siberia

During the wartime sugar shortage, Pepsi's bottlers had turned to sugar substitutes and the quality of the drink deteriorated. The product varied wildly from franchise to franchise. Even more serious was the fact that it was tied to an out-of-date market strategy. Ever since 1934, Pepsi had been sold in a twelve-ounce bottle. Starting with 1939, its famous radio jingle, "Twice as much for a nickel, too . . ." summed up the essence of its sales approach. It was an approach born in the belly of the great depression, when consumers were anxiously counting every penny, and for its time it was effective. But as postwar income rose, the old sales appeal to thrift lost much of its tug. Because Pepsi had harped so heavily on quantity, it had developed its biggest sales in the lowest income groups, and it now found itself with an inferior brand image. Many housewives, ashamed to serve Pepsi in the living room, poured it in the kitchen, left the bottles behind, and served it as if it were Coke.

Inflation caught Pepsi in a deadly price squeeze. With the cost of labor, bottles, trucks, and everything else sky-rocketing, its bottlers began to feel extreme pressure on their nickel price. One by one, they began to crack, jacking up their wholesale price from the traditional 80 cents a case to 96 cents, and Pepsi began selling to the consumer for 6 and 7 cents a bottle. Clearly it was no longer the great bargain it had been and, with its poor image and its obsolete advertising, sales began to slip.

Pepsi's profits in 1946 had been $6,300,000. By 1949 they had shrunk to $2,100,000 and were still going down fast. Pepsi stock, which had been selling in 1946 for as high as $40 a share, crumpled to $8 by 1949. Its demoralized bottlers blamed Pepsi President Walter Mack for their troubles and came screaming for help.

It was at this gloomy moment that Mack's eye fell on Steele, to whom he offered $85,000 a year and the right to buy 16,000 shares of Pepsi stock. The bottlers, unsoothed by the news, called Mack's offer an extravagance. Things were so grim that Steele later on could comment: "When I arrived at Pepsi the other vice presidents figured I had come to liquidate the company." What Steele liquidated was Mack.

During the first quarter of 1950, Pepsi showed a loss of $100,000. Going

over Mack's head, Steele flatly informed the board that he would leave unless he was given complete control of the company. At a tense board meeting on March 1, 1950, the directors boosted Steele into the presidency. Mack moved up to become chairman, then, a few months later, retired from Pepsi.

Up Like a Scalded Cat

A restless idea man, who, as one associate put it, "couldn't sit still behind a desk," Steele was not cut out to run the day-to-day affairs of a company. For this he leaned heavily on Herbert Barnet, who had come on Pepsi's payroll only a few months before Steele but had gained an intimate acquaintanceship with the company's problems during the previous fourteen years as an attorney in Pepsi's law firm. Steele and Barnet began by changing the formula for Pepsi, reducing the amount of sugar in it, and standardizing it from franchise to franchise. They redesigned the bottles and eliminated the old paper label that so often was torn and dirty by the time the bottle reached the consumer. They got the bottlers to standardize their packages, trucks, signs, and equipment. Steele singled out twenty-five cities for special effort. Terming these his "push markets," he pumped added parent-company funds into local advertising in these cities, and used his successes in these markets as arguments for increased bottler investment in equipment, advertising, and promotion.

These energetic efforts paid off. As bottlers regained their confidence in the parent company, sales rose, and a basis was laid for the next big step—a complete overhaul of Pepsi's rusty marketing strategy. Plucking an old friend, John Toigo, away from the D'Arcy agency, Steele installed him in Pepsi's agency, Biow Co. He told Toigo to take Pepsi out of the kitchen and put it in the living room.

Pepsi next made a crucial marketing decision. It could try to attack Coca-Cola on all fronts at once and scatter its shots, or it could concentrate its firepower. The market for soft drinks breaks into two large categories. The first is on-premise sales—i.e., fountain sales, vending-machine sales, and the sale of already refrigerated bottles for on-the-spot consumption. The second is the "take home" market—the sales of unrefrigerated bottles for consumption in the home. It was this second sector that Steele singled out for his major attack. This was where Pepsi was already at its strongest; and it would be easier to get outlets in places like grocery stores and supermarkets where many brands are displayed than in snack bars or soda fountains where, as a rule, only a single brand of cola is sold.

With this tactic in mind, Toigo put together a campaign that not only would upgrade the image of the product but would be aimed directly at the housewife, key to the take-home market. The art work showed slender, well-dressed women and imperially slim young men in elegant, high-income surroundings. For a theme Toigo leaned on Steele's de-

sweetening of the product. "The light refreshment," the ads said. This slogan was sometimes backed up by "reduced in calories."

Delony Sledge wryly characterizes this as Pepsi's "up from poverty" campaign. But the campaign, and Steele's herculean cleanup in other fields, was undeniably effective. Sales began an exhilarating upward whoosh. By the end of 1955, Steele could boast of having pushed Pepsi's volume up 131 per cent in five years. Profits shot up even faster. Pepsi, in Sledge's words, was "coming up like a scalded cat."

Stung by the calorie ads, Coke's bottlers demanded that Coke retaliate with its own sharply competitive ads or that at least it challenge Pepsi's implied charge that Coke was calorie laden. But Coke took the stance that to answer Pepsi would, in effect, extend diplomatic recognition to an interloper.

Coke had reasons for this policy. First, while Pepsi might have the option of attacking Coke at a single point, Coke had to defend its entire line, its fountain and vending sales as well as its home market. Its ads had to be more general. Second, as far back as the 1920's, Coke had developed a basic theory which held that what people want out of a soft drink is refreshment. Its ads, always blandly noncompetitive, played infinite variations on this single theme. To break out of the pattern and talk about something extraneous like calories seemed a mistake.

Far from the Pristine Wilderness

While Coke stood pat, Steele's success in cutting into the take-home market now led him to the next phase of his grand offensive, an attack on the on-premise market. This could be directed against Coke's oldest and strongest base, the soda fountain, a segment of the market carefully nurtured and serviced by Coke itself, the parent company, not its bottlers; or it could be directed against the vending-machine and cold-bottle business—i.e., the sale of iced bottled drinks in ball parks, snack bars, picnic grounds, and the like. Steele, aware that the fountain trade would be harder to crack and that the number of fountain outlets was barely holding its own while the number of vending-machine and cold-bottle outlets was rising rapidly, decided to concentrate on the latter. But to carry out his new plan, Steele felt he needed a more varied arsenal. Pepsi's traditional twelve-ounce bottle was fine for home consumption, but not for the on-premise business. Steele began to push a six-and-a-half-ounce, an eight-ounce, and a ten-ounce bottle for use in vending machines and cold-bottle outlets and a twenty-six-ounce bottle to backstop Pepsi's gains in the take-home trade. At the same time Barnet developed a financing plan to help bottlers to buy vending machines.

At that time the reflexes of the typical Coke bottler were simply not quick enough to keep up with Pepsi. A pillar of his community, wealthy, and all too often fatly content, the Coke bottler found himself unaccustomed to the challenge of real competition. Says Delony Sledge: "Their grandfathers hewed this thing out of the pristine wilderness, but the

second generation was raised on the Stutz Bearcat and the yacht. The third generation, even further removed from pioneer days, found it hard to accept what was happening." By contrast, adds Sledge, "the Pepsi bottler was lean and hungry and just plain poor."

Infidelity at Columbus

Pepsi's new tactics brought to a head a controversy that had been raging for some time in the Coke bottler corps and at company headquarters in Atlanta. Some bottlers had long clamored for Coke to bring out a twelve-ounce bottle of its own. But most domestic bottlers disagreed violently. They felt a large bottle would merely compete with their own standard six-and-a-half-ounce package. Many didn't want to spend the money necessary for new glass and machinery. The six-and-a-half-ounce bottle that designer Raymond Loewy once termed "the most perfectly designed package in use today" had become so closely identified with Coca-Cola itself that the thought of change was shattering to old-timers. Says Edgar Forio, Coke's senior vice president: "Bringing out another bottle was like being unfaithful to your wife."

Nevertheless, by late 1954 something had to be done to stem Steele's onslaught, and Coke began planning field tests for newly designed ten-ounce and twelve-ounce bottles. The first of these went on sale January 27, 1955, in Columbus, Ohio. "We were never able to finish the field tests," says C. W. Hodgson, Coke's bottler-relations man. "Pressure from some bottlers got so great that before the tests were over both new sizes were made available to them." Diehard bottlers refused at first to adopt the big bottles. But once the dam broke, the tide became irresistible. Today an estimated 30 per cent of Coke's U.S. sales are in king-size bottles.

Coke's move, characterized by one company official at the time as "the biggest upheaval in our industry's history," coincided with another historic event. From the time he came to the company in 1923, Robert Woodruff had been the undisputed boss of Coca-Cola. Even when other men served as president, it was Woodruff, prowling through the corridors of the company headquarters, chewing on a black cigar, or merely shooting quail at his South Georgia estate, Ichauway, who called the turns. Now as he approached sixty-five—Coke's mandatory retirement age—he began to look around for a new man to take over the full load. The man he found was William E. Robinson, the bluff, florid head of Robinson-Hannagan Associates, Coke's public-relations agency. Robinson, best known, perhaps, as a favorite golf partner of Dwight Eisenhower, was a veteran advertising, merchandising, and marketing man.

The Year the Taj Mahal Flopped

One of the first problems to which the new head man applied himself was advertising. Ever since 1951, when Archie Lee died, relations between Coca-Cola and the D'Arcy agency had cooled. Lee, D'Arcy's

chairman and a close friend of Woodruff, had been the real architect of Coke's ad policy. But the feeling at Coke was that Lee had left "no heirs to Alexander." D'Arcy's 1955 campaign was uninspired, and drew pungent criticism from the trade papers. As matters deteriorated, Robinson, a man of definite opinions about advertising, began to scout for a new agency. In October, 1955, he shifted the account, after nearly fifty years with D'Arcy, to McCann-Erickson.

McCann had handled some of Coke's overseas advertising and was familiar with the problems of the industry. Moreover, it was headed by Marion Harper, whom one Coke man has described with admiration as "a ball of fire, a devil-ridden man." For some months after the switch, Coke and McCann seemed to flounder. "We were probing the perimeter, trying to find the enemy's strength," explains Sledge. The outcome of this probing was Robinson's 1957 campaign. Hunting for something unique to say about Coke, Robinson was struck (as who isn't?) by Coke's ubiquity. Coke was then sold in 105 countries. Sixty million times a day someone somewhere bent an elbow to down a Coca-Cola. Gauchos imbibed it in Argentina, sheepherders in Australia. From the jungles of Peru to the bazaars of Persia, from Zurich to Zanzibar, Coke, of all man-made commodities, came closest to being universal. This was something nobody else could brag about. So the 1957 and 1958 art work in Coca-Cola ads showed Coke being quaffed by sophisticated-looking people in the shadow of the Doge's palace in Venice, in front of the Taj Mahal, near the Pyramids at Gizeh. In art work and copy, the campaign was a far cry from the apple-cheeked girls of the D'Arcy days.

It was different. But it didn't work. In 1957, Pepsi registered the biggest sales increase of any year since Steele's arrival. Coke bottlers blamed Robinson's ad campaign and market researchers confirmed their analysis. The around-the-world ads turned in the lowest reader-impact scores of any Coke campaign in years. "The fancy art work," comments Sledge in retrospect, "looked like it might have been right for MacGregor shirts, but not for Coke. The bottlers were telling us, 'You can sell all the Coke you want in Pakistan. We want to sell it in Punkin Center.' By 1959 we were ready to get out of the Doge's palace and back to Rosie O'Grady's backyard."

Mr. Woodruff Pulls the Brake

Unfortunately, Robinson was having trouble even closer to home than Punkin Center. Until now Coke had had the reputation of being the kind of company from which no one ever got fired. It was a standing joke in Atlanta that the headquarters on North Avenue had a floor full of vice presidents and former presidents with no work for them to do. Robinson, amiable but tough, had brought in as his executive vice president Curtis Gager, who had recently retired from General Foods. Says one Atlantan close to the scene: "Gager was out to get a few heads, and that was not

the way Coca-Cola had been run. He put the fear of God into everyone there. Gager and Robinson worked the company over. Morale was terrible. Woodruff sensed this. He could look at the figures and at the advertising and wonder what he had gotten himself into."

Woodruff may have taken his hands off Coke's steering wheel, but he had never let go of the emergency brake. On May 6, 1958, Bill Robinson was elevated out of the presidency to become chairman. This time Woodruff chose as president a man who had come to Coke in 1923 and had pounded the pavements going from soda fountain to soda fountain tacking up Coke posters. Lee Talley, who had been boss of Coke's export operations, was an immediate favorite with Coke's bottlers, and a sigh of relief swept North Avenue when he was appointed. He was, Coke men point out, "an old Georgia boy and a blooded member of Coca-Cola."

Since his arrival Talley has done much to inspirit the bottler corps and the company. He has acknowledged the painful fact that Coke is no longer alone in the cola universe, and he has gone out to meet the competition. This new combativeness has shown up even in the advertising. In 1959 Coke used the slogan "Be really refreshed." It was still sticking to the refreshment theme, but its ads now seemed to imply that if you were drinking anything but Coke you were just flirting with refreshment, not getting the genuine article. Since January, 1960, Coca-Cola has had a line that is even more explicit—"No wonder Coke refreshes best." This change marked the first time in over a generation that any of its ads contained either a comparative or a superlative. It was a painful, out-and-out allusion to competition. An era of aloof grandeur had ended.

Beyond the Living Room

At Pepsi, too, changes had been tumbling over one another. Steele's personal relationship with Biow and Toigo had begun to fray. One day in 1955, Steele picked up a magazine, as was his habit, to study advertising art and copy trends. His gaze fell on a bright and cheerful Philip Morris ad that looked disconcertingly similar to one of Pepsi's own ads. The cigarette company's advertisement had been prepared by Biow; Toigo had worked on it, along with other people usually assigned to the Pepsi account. Moreover, it turned out that some of Biow's other clients were not paying the full 15 per cent commission that Pepsi was paying. In 1952, shortly after Toigo had joined Biow, Steele had given Biow a promise to the effect that as long as Toigo stayed on, Pepsi would not shift its account to another agency without first giving two years' notice. Now Steele had two good excuses for breaking his promise. By early 1956 he had transferred the account to Kenyon & Eckhardt.

Two years later K. & E. introduced a new slogan—"Be sociable"—into Pepsi's ads, but retained the same flavor in the art work, the same classy models and tony atmosphere. Steele was still trying to move his product from Tenth Avenue to Park Avenue, but "Be sociable" was a less spe-

cific, less aggressive attack. This relaxation came at a bad time. Pepsi was slow to realize that its competition was changing. The old complacent Coke bottler had awakened and was beginning to scrap. Armed with a full line of bottle sizes and a new, tougher advertising campaign, Coke's 1959 sales shot up 10.4 per cent over 1958, the biggest spurt in more than ten years. Pepsi was still gaining in both sales and profits, but Coke's pressure was now felt at every supermarket, filling station, and vending-machine outlet. Charles Buchanan, Coke's bottler in Winston-Salem, North Carolina, puts it this way: "The old giant has turned over and gotten up on its feet. You don't sit by and watch other people take away a business you spent fifty years building up. We want to recapture what we lost in the take-home market. We'll do most anything to do that."

Faced with Coke's new militancy, many Pepsi bottlers felt that the "Be sociable" campaign—by then slightly modified to focus on groups identified as "The Sociables"— was too flabby. They found the fox-hunting scenes and full-dress dinner parties depicted almost as remote as Coke's Taj Mahals had been. There was a feeling that Pepsi was out of the kitchen, but that by now it had overshot the living room. In March, 1959, Steele took to the road to stoke up greater enthusiasm—and heavier local ad expenditures—among his bottlers. As usual he did things in a big way. Splurging $200,000 on a massive extravaganza called Adorama, Steele took the show from San Francisco to Denver, from Denver to Dallas, to Chicago, Columbus, Albany, and Charlotte. His last stop on the grueling itinerary was Washington, D.C., where he delivered two speeches and taped eleven radio interviews on Friday, April 17. That evening he flew back to New York in the company's Lockheed Lodestar. The following night, back in his New York apartment, Steele went to bed early. When his wife, actress Joan Crawford, entered his bedroom the next morning, she found him stretched on the floor, dead of a heart attack at fifty-eight.

Sister Aimee with Two Straws

Pepsi moved quickly to fill the breach. All during the Fifties Herb Barnet had been the pragmatist who brought Steele's soaring imagination down to earth. In July, 1955, on Steele's appointment as chairman, Barnet had been made president. Now, on May 7, 1959, while the letters of condolence were still pouring into headquarters, the Pepsi board named Barnet chief executive officer.

For nearly a year after Steele's death there were no visible signs that anything had changed at Pepsi. Then Madison Avenue began to buzz with the news that Pepsi was canvassing a dozen big agencies in preparation for another shift. By April, 1960, B.B.D.O. had landed the much-coveted account, partly on assurances that Charlie Brower himself would

devote 25 per cent of his time to Pepsi. The new campaign B.B.D.O. developed was based on an intensive four-month study of the industry, an expensive motivational-research survey of consumers, and a close look at the population growth charts. Its motivational research produced the cheerful findings that consumers thought of Pepsi as a drink growing in popularity and that they very often thought of Coke as "an old-fashioned drink."

On the basis of this reconnaissance, B.B.D.O. "set out to create an advertising campaign that designates our giant rival—Coca-Cola—as a drink for people who are out of step, out of touch, out of date. It's almost axiomatic in this business that good advertising sells your brand, and unsells the competition," according to Robert L. Foreman, B.B.D.O.'s executive vice president for creative services. B.B.D.O. attempted to gear the campaign to two key marketing facts. The first of these is that the ten to twenty-nine age group not only has the highest capita consumption rate for soft drinks, but it is in this group that Pepsi made its greatest advances since 1956. Second, it was here that Pepsi enjoyed its largest share of market. The campaign—with its slogan "Now it's Pepsi for those who think young!"—was thus designed to defend and expand Pepsi's position in this group, while at the same time appealing to older age groups, where Coke's chief market lies.

To sell this new campaign, Pepsi put on a hard-hitting presentation at the Pepsi-Cola Bottlers Association's fourteenth annual meeting in New Orleans. It was here that Brower made his hortatory speech about overrunning the enemy. Other orators, one after another, whipped up enthusiasm for the cause. So heated did the evangelical fervor grow that one bottler, Bernard Relin, was moved to comment: "It was like Aimee Semple McPherson coming over the hill with two straws."

To hammer home the message, Pepsi and its bottlers this year will spend roughly $34 million to saturate the country with "Think young." This will still not match the estimated $50-million advertising outlay of Coke and its bottlers, but it will be Pepsi's most impressive effort to date.

Yo-yo's and Hula Hoops

As the competitive battle seesawed across the U.S. market place all during the Fifties, it was being duplicated abroad. Coca-Cola built its first bottling plant overseas in 1907 in Honolulu. Since then it has become the most widely known U.S. export on earth. During World War II Coke men followed our troops everywhere, setting up bottling plants as they went, thus not only keeping our G.I.'s provided, but introducing Coke to millions of foreigners. After the war Coke began a big buildup overseas, and by 1949 fully 25 per cent of net profits flowed in from abroad. It was a happy time, marred only intermittently by opposition from foreign winegrowers or by Communist propaganda campaigns against "Coca

Colonialism"—a slogan the Communists thought up without benefit of preliminary motivational research.

Pepsi had been operating abroad since 1937, when it opened a bottling plant in Havana. By 1950 it had sixty-seven overseas plants in thirty-one countries, but together these brought in only $9,579,000 in sales. In 1956 Steele and Barnet began a major drive for foreign sales, and by the end of last year Pepsi could boast of 237 operating bottling plants in eighty-six foreign countries, and foreign sales of $47 million.

Both companies apply basically the same advertising and promotional techniques abroad that they use in the U.S. But modifications are necessary. In Central Africa, for example, Coke has tribal storytellers on its payroll to sing the praises of its product. In Hong Kong, Coke has staged exhibitions of yo-yo artistry for young people. In Norway, Pepsi has sponsored a jazz band, a magician, gymnasts, and hula-hoop performers. Pepsi gets a local bishop to bless its new plant in Fernando Póo, a tiny island off the West African coast. Coke invites Haile Selassie to its plant opening in Addis Ababa. In Germany, Pepsi maintains its so-called "Panzer Unit"—thirty or forty Volkswagen panel trucks that sweep into a community the day a new Pepsi plant opens to help the local bottler inundate his area. Such offbeat promotional activity helped Coke rack up overseas sales of an estimated 290 million cases last year. Pepsi sold 155 million cases.

Statistics with a Smile

Domestically, measured in terms of case sales (a case equals twenty-four bottles of any size), Coca-Cola in 1950 commanded 69 per cent of the U.S. bottled-cola market. Pepsi accounted for 15 per cent. By 1960 Coke's hold had been whittled down to 52 per cent, and Pepsi's share had climbed to 31 per cent. These figures, however, because they lump together bottles of all sizes, do not tell the whole story. The larger the bottles sold, the higher the price the bottler receives for them and the more sirup or concentrate the parent company sells. Thus gallonage trends are significant, too. Despite the fact that it introduced larger bottles in the mid-Fifties, Coke's share of the domestic cola market in terms of bottle gallonage of finished product declined from 57 per cent to 44 per cent between 1950 and 1960. Pepsi's rose from 21 per cent in 1950 to 35 per cent in 1955. It has maintained this rate since, even though about 15 per cent of its sales are now in small bottles. At the soda fountain the two companies together account for virtually all the cola sirup sold. Coke's fountain-sirup volume rose from about 25 million gallons to about 30 million per year in the last decade. Pepsi's sales climbed from one million to six million gallons.

With both the domestic and foreign markets expanding rapidly, records of both companies have looked good in recent years. In all, Pepsi,

starting from a much smaller base, where percentage gains are more easily made, increased its dollar sales 315 per cent between 1950 and 1960; Coke's sales grew 67 per cent. Last year Coke's soft-drink sales gained 5 per cent over 1959. Pepsi's held at the 1959 level. Pepsi's 1960 net of $14,181,000, a record high, represented 9 per cent on sales and 21.4 per cent on invested capital. With the single exception of 1956 the company's earnings have climbed steadily year after year since 1950. Coke's progress has been less even. Its net profits in 1951 dropped to $26 million, 18 per cent below the 1950 level, and 31 per cent below the record peak of $37,800,000 in 1949. Since then they have risen irregularly, but they have not yet regained the 1949 level. Coke's soft-drink profits last year ran to an estimated $35 million, a return of nearly 10 per cent on sales.

In comparing the two companies, it is essential to keep sight of the fact that they do not sell exactly the same product. Coke's sirup includes sugar, for which its bottlers pay Coca-Cola. Pepsi's bottlers buy their own sugar to add to its concentrate. This means that, given equivalent amounts of end product, Coke's dollar volume is necessarily higher, and, because margins on sugar are low, its over-all profit margin per unit of sirup is lower than Pepsi's margin on a unit of concentrate. All other things being equal, if Pepsi were selling sirup to its bottlers its volume would be higher and its over-all margin lower. Another often unnoticed difference between the companies is that Pepsi is contractually free to raise the price of concentrate if costs decree an increase. Coke's contracts with its domestic bottlers fix the price of a gallon of sirup in perpetuity at $1.30 plus a differential pegged to the price of sugar. Thus Coke must absorb all increased costs of sirup production except for the cost of sugar.

The Three-Spout Policy

Between 1953 and 1960 Coca-Cola's cache of cash and government securities mounted from $66,700,000 to $106,200,000, and Coke in 1960 began to look around for suitable uses for this pile-up of liquid assets. The outcome of this search was its widely publicized merger last December with the Minute Maid Corp., which manufactures frozen orange juice and instant coffee.

This merger is often called the first break in Coke's traditional one-product policy. Actually the break came earlier, when Coke, like Pepsi, introduced a number of new soft-drink products. Each now sells a lemon-lime drink. Coke's is called Sprite; Pepsi's is Teem. In addition, both Coke and Pepsi have introduced a general line of flavored soft drinks ranging from orange to ginger ale. Coke markets its line under the name Fanta; Pepsi's label is Patio. The introduction of these products in 1959 and 1960 stemmed largely from the fact that many vending machines are built to dispense three different flavors. Pepsi and Coke rea-

soned that if they were going to go to the expense and trouble of buying and placing vending machines, they, rather than someone else, ought to take advantage of the additional two spouts.

Howl, Dawg—and Run

In the meantime, the soft-drink industry continues to accept the joyful blessings showered upon it by a combination of rising per capita consumption and rising population. Industry planners watching the population growth charts are encouraged to note that the ten to twenty-nine age group, which consumes about 45 per cent of soft-drink production, is expected to increase 16.2 per cent by 1965. The same age group is expanding rapidly in many other countries too.

But no soft-drink company, least of all the two biggest, can count on reaping the full benefits of these trends simply by relaxing and doing things the same way they were done in the Fifties. The packaging revolution that has swept through American industry, forcing Coke to adopt big bottles and Pepsi to adopt small ones, is far from over. Already there are premonitory rumblings of the next big wave of change. A controversy over the economics of containers like cans and non-returnable bottles is currently agitating the business, and still other innovations are crowding the rim of the horizon. There are carton-vending machines that, sitting out in front of the gas station or the supermarket, will sell unrefrigerated soft drinks by the case or six-pack rather than by the individual bottle. Visionaries like Bill Durkee, Pepsi's top marketing man, are talking headily about that golden day in the future when colas will be sold in stainless-steel tanks for storage in millions of home refrigerators. Whether by this time Pepsi will have, at long last, caught up with the Colossus of Atlanta cannot be predicted. But one thing is certain. There's going to be a lot of what Delony Sledge calls "hit howlin' dawg competition" before then.

2

Watch Producers Battle for Markets*

Both here and abroad, the watch industry today has more than just time on its hands. It has a caseful of problems ticking away, any one of which can help determine who wins what share of which market.

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You get a rough idea of what has been happening in the U.S. during the past few years from the charts:

Pin-lever watches—the kind that work without jewels, like the old $1 Ingersoll pocket watch—have been taking an increasingly large share of the U.S. market, still the richest in the world. This has thrown the jeweled-lever watchmakers with their $35 to $65 range, into a major battle for position.

To compound the problem, the total U.S. market is alarmingly stagnant. From 22.4-million units in 1951, total watch sales fell to 19.8-million in 1958. The turning point, watchmakers hope, came in 1959 when a record 24.7-million watches were sold. Compared with 1951, though, that still doesn't represent much growth in a growth economy.

What's more, there is ample evidence that the character of the watch market—particularly in the U.S.—is changing so greatly that old ways of doing business are becoming as outdated as the hour-glass.

As if all that isn't enough, many think the industry is on the verge of a major revolution, tied to the electronic age, that could upset not only the market but also the entire shape of watch production. The forerunner was Bulova Watch Co., Inc.'s introduction last year of its Accutron, the first truly electronic watch—which means it has no mainspring or balance wheel—to hit the market.

I. SWISS STAKE

As a nation, Switzerland has the most at stake in what's happening. For years, the area around Lake of Geneva has been the center of the world's watchmaking. Hundreds of watch plants of one kind or another dot the landscape—many of them large, modern plants such as Eterna and Omega, others small assembly lines of a few people. Switzerland remains preeminent, but it recognizes challenges in the U.S. and in the growing competition from Japan and even the Soviet Union.

Antitrust Action

At the moment, the U.S.—its government, its homegrown cheaper watch industry, and its changing market—constitutes the Swiss' greatest problem. For one thing, the watch industry is embroiled in an antitrust suit brought by the U.S. government. The suit, filed in 1954, finally came to trial last November in New York. At the moment, the Swiss watchmakers' lawyers are preparing motions to dismiss the case now that the government has presented its evidence.

The U.S. is attacking the Swiss watch cartel, as far as it does business in this country. It charged 22 watch manufacturers and importers with conspiring to restrain the manufacture, sale, import, export, and distribution of watches and watch parts, both for manufacturing and for resale, in violation of the Sherman Act and the Wilson Tariff Act. It won consent decrees from some of the defendants, but the Federation of Swiss Watch

Makers, some of the top-flight Swiss companies, and American companies (Bulova, Benrus, Gruen) decided to fight the case.

Meets Swiss Law

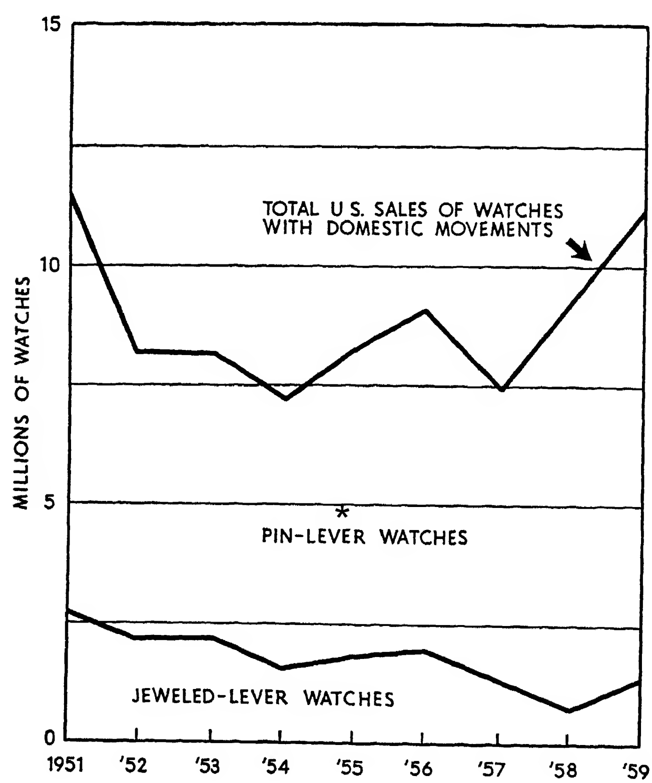
The Swiss don't deny the existence of an internal cartel, enforced by Swiss law, that controls the country's industry—a complicated array of manufacturers, parts makers, assemblers. Tightly run associations, with an over-all unifying group, keep close control over each phase of the business.

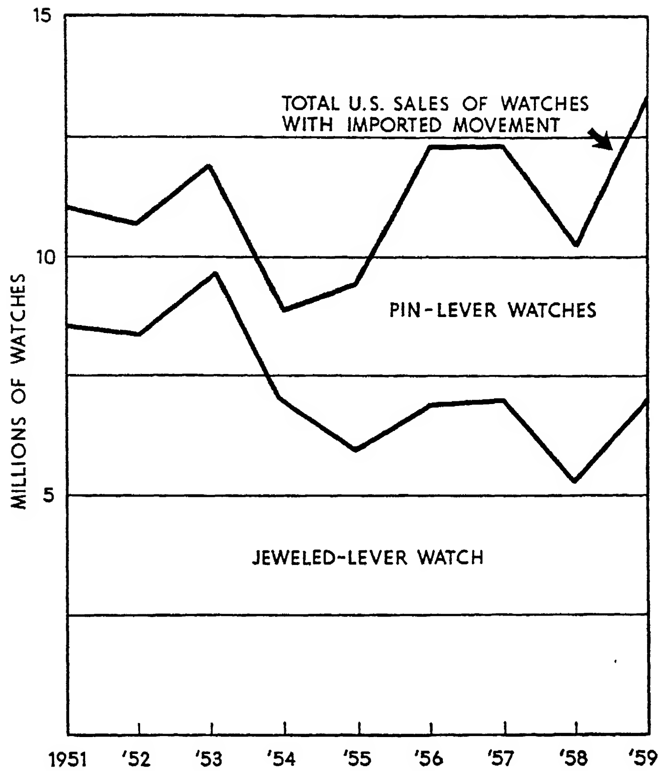
One rule, for instance, prohibits the export of parts that can be assembled into movements in other countries. But the Swiss insist that, once a watch or movement leaves Swiss control, there is an open market with open competition and no price-fixing.

Whose Rules?

They argue that the U.S. is insisting that, as an industry and as individual companies, they conform to American notions of fair competition literally by breaking the laws of their own land.

That, as the Swiss see it, is the major issue to be decided by the trial—whether the U.S. can, in a sense, export its antitrust laws. The outcome





Data: U.S Tariff Commission

could have an effect beyond Swiss-U.S. relations if the antitrusters win. Other countries might also seek similar arrangements with the Swiss industry.

Long Battle

Makers of fine jeweled watches are leading the fight against the antitrust action. The fight is described by one American company as "almost a way of life, now that it has dragged out so long." By fine craftsmanship and—especially since World War II—by major advances in precision automatic production methods and standardization of parts, the Swiss have always led the world in jeweled watches.

Swiss and American fine-jeweled watchmakers battled each other for years, with the American industry crying for stiff tariff protection that it finally achieved in 1954. The U.S. industry insisted Swiss imports were ruining domestic production to the detriment of a vital defense industry (because of the skilled work force). The Swiss insist that the new tariff schedule didn't help American jeweled watch production. Instead it increased the advantage of pin-levers in price and helped spur the cheap watch boom.

In 1958, the U.S. watch industry was officially declared not to be a vital defense industry. Shortly after that, the last major holdout, Hamilton Watch Co., acquired production facilities in Switzerland. All major U.S. producers of jeweled watches—Bulova, Hamilton, Benrus Watch Co., Inc., and Elgin National Watch Co.—have watchmaking operations in Switzerland, many of them in existence for years.

II. ENTER TIMEX

Jean-Jacques Bolli, director of the Swiss Watch Chamber of Commerce, is among a number who blame the protracted U.S.-Swiss battle for another of the problems facing the jeweled-lever watchmakers both here and in Switzerland. He told a group of Americans last fall: "We were fighting the wrong enemies—each other—on the wrong terrain—the area of quality watches."

According to this theory, they should have been paying attention to two other problems:

The rise of the cheaper ($6.95 to $17.95) pin-lever watches.

The disturbing change in American consumers, many of whom lost interest in expensive watches as status symbols and began investing in other things—such as homes, cars, recreation.

Confusion Reigns

Not only that, the growth of pin-lever watches panicked some of the quality watchmakers into attempting to meet the threat by putting out low-priced jeweled watches that weren't up to fine jeweled-watch standards. The upshot: Consumers became confused about price and quality.

The top quality watches—Patek Phillippe, Omega, Vacheron & Constantin—didn't suffer; theirs was strictly a luxury market anyway. But the competition and confusion were hard on the $35 to $65 watches with such top brand names in the U.S. as Bulova, Gruen, Benrus, Hamilton, Elgin.

Timex Marches In

U.S. Time Corp. has a different version. This company is the outgrowth of the old Westbury Clock Co., which made Ingersolls and Mickey Mouse watches. During World War II, it was reorganized with Norwegian capital to make precision military instruments. After the war it converted to watches and in 1950 introduced Timex.

More important, it shook up the trade by giving high style to the pin-lever Timex and then, in 1956, by launching its now famous John Cameron Swayze "torture test" television advertising.

Today, U.S. Time claims to be the biggest watchmaker in the world. It has a German-made line of jeweled watches, and says it makes one out

of every three watches sold in the U.S. Starting at $6.95, prices range now up to $19.95, overlapping the lowest-priced jeweled watches.

Its distribution covers the waterfront—every place it can get traffic it puts in a line—with strict fair-trade policing, however. The high cost of watch repairing gave Timex a break, too. People buying a $6.95 or $9.95 watch, providing the watches last long enough, will throw them away, not repair them.

Lately Timex has been upgrading its line. Just last month it announced the introduction of an electric watch at $29.95—cheaper by far than the Hamilton electric at $89.50.

Promotion Riposte

To change this picture, the Watchmakers of Switzerland Information Center, Inc., mounted a campaign in 1959 to tell the U.S. consumer about fine watches. Individual companies, too, are stressing this. Benrus came out with a $25 watch, backed by a heavy advertising campaign with an unconditional three-year guarantee.

The fine watchmakers as a group are betting that (1) their educational campaign will pay off and (2) the U.S. is becoming quality-conscious again.

III. THE ELECTRONIC AGE

Further ahead, some of the fine watchmakers see trouble in the development of electronic timepieces.

Bulova has launched a major promotional campaign to sell its new Accutron, which works on a tuning-fork principle.

Priced at $175 to $395 (with one special model in platinum at $2,500), the Accutron is aiming at what Bulova asserts is a $90-million market in the U.S.

The Accutron is different from Hamilton's electric watch or the Timex Electric because it dispenses with what is called an escapement—the heart of any watch and the difference between accuracy or inaccuracy (Swiss quality jeweled watches largely get their accuracy from the fine workmanship on the escapement, with exactly 17 jewels needed to provide top quality). In an electric watch, the balance wheel is moved by battery, not a mainspring as in conventional watches.

Watch to Come

What really worries the jeweled watch industry is the possibility that the electric watch (which is hardly a new development) and the electronic version by Bulova are only forerunners of an electronic watch that dispenses with all moving parts, working on impulses from solid-state electronic devices.

That day may be 10 or 15 years away, but when it comes, the indus-

try's craftsmanship in small precision parts, such as the Swiss can provide, could be overwhelmed by the productive capacity of the RCA's, the Westinghouses, or the General Electrics.

Right now it is difficult for an electric or electronic watch, or even the popular self-winding movements, to be made with the thin styling of the fine jeweled watches that have come into fashion. Because of this, the jeweled-lever watchmakers still feel certain of their market.

But, as a spokesman for the Swiss put it: "The day they make a finely designed ladies' electronic watch will be a serious one." This could disrupt the market as it exists today.

IV. WORLD MARKET

Another battle is shaping up in the world market, with every company betting on future growth and determined to get its share of it.

As underdeveloped countries grow, watches come into immediate demand. As American soldiers remember in their contacts with the Russians right after World War II, the watch is probably the first status symbol that is sought by workers in a newly industrialized country.

Bulova's president, Harry B. Henshel, looks for an almost unlimited expansion of the watch market. "After the basic needs of food, shelter, and clothing are satisfied," he says, "one of the first things people everywhere want is a timepiece of their own."

3 The Great Soup War*

BY JOHN MAUGHAN

Out on the shelves of the nation's supermarkets a battle is brewing for shares in the soup business. Soup, seemingly prosaic and staid, now has become a bubbling $500-million-a-year industry. The contestants in the soup war, rich and powerful, are among the nation's largest corporations, and the stakes they are preparing to battle for are huge. The gain or loss of even just a 1% share of the market means to them a fat $5 million in revenues.

Already the major competitors are warming up a whole raft of new

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merchandising techniques, maneuvers ranging from the mix of the soup to its place on the grocer's shelf. Out of all this is coming one of the hottest marketing battles yet to sweep through the already fiercely competitive food industry.

Two giants in the industry will be making most of the noise.

The first is Campbell Soup Co., the biggest soupmaker of them all (1960 sales: $516 million). With its liquid soups it now holds between 80% and 85% of the U.S. soup market. After almost a century of brewing liquid soups and making only a couple of tentative, almost halfhearted shots at the dehydrated soup market, Campbell is putting millions of dollars into a new line, called "Campbell's Red Kettle," of canned dehydrated soups.

One of the best-kept secrets in U.S. business, Campbell all this year has been quietly converting a large part of one of its main plants in its headquarters city of Camden, N.J. to dehydrated soup production. At a nearby research center, Campbell technicians have been working over not only the recipes for seven types of dehydrated soups (no mean task, for each uses dozens of ingredients), but have also been making and testing a new type of can to hold the dehydrated soup mixes. There is no evidence to show that even a month ago Campbell's competitors knew what was going on, though they were making guesses.

The second of the giants is Corn Products Co. (1960 sales: $691 million). Until midsummer this year it had not boiled up any soup in the U.S. for the domestic market. But four-and-a-half years ago it did buy control of the 120-year-old C. H. Knorr Co., a Swiss and German soupmaker that has long dominated the European soup business. Knorr's name and know-how and Corn Products' money and knowledge of U.S. eating habits have been put together, and the result is a multimillion-dollar soup factory at Argo, Ill. that was opened in July and is now turning out dehydrated soups for the U.S. market.

What's the Target?

These two—the first with a massive chunk of the entire soup market under its belt, the second with a gleam in its eye and high-pressure marketing techniques at its command—are set to do battle for only a relatively small part of the whole U.S. soup market. The dehydrated soup business now accounts for only about 10% of soup sales, but even that seemingly small segment is worth $50 million a year in revenues. The marketing razzle-dazzle of the two giants is bound to boost the size of the dehydrated soup market. But meantime, wherever they move on the supermarket shelves they will run into:

Thomas J. Lipton, Inc., presently the country's biggest maker of dehydrated soups, with close to three quarters of the market. About a quarter of Lipton's sales (1960 total: $120 million) comes from dehydrated soups, and from this Lipton claims second place in the U.S. soup business.

H. J. Heinz also claims second place, and since neither Heinz nor Lipton will separate precisely its soup sales dollars from its total sales, nobody can tell for sure which claim is justified. Heinz, though, sticks to canned liquid soup, and in this it is certainly the second-ranking company in the industry, behind Campbell.

A couple of dozen smaller soupmakers push for a share of what is left. Some are U.S. companies with limited, regional outlets. A few are foreign firms that ship their products to high-priced specialty stores. These smaller companies make a living, but as the figures show, they have made little headway in a market that has been so wrapped up among a Big Three. Now that Corn Products has entered the business and Campbell has staked several million dollars on a whole new line, it is the Big Four that will be making all the news in the industry.

Campbell came hesitantly to its decision to go after the dehydrated—as well as the liquid—soup market. During World War II it made some for the military, but by the end of the war it had quit.

Last year Campbell tried a second time. It brewed some test batches of dehydrated soup, packaged them in plastic-and-foil containers and gave them a test shipping run back and forth across Canada between Vancouver and Montreal. It also produced some in Europe, marketed them briefly in Belgium and then withdrew them.

Says Campbell's President William B. ("Bev") Murphy: "We were disappointed. We just weren't satisfied with the integrity of the packaging. Vibration during the Canadian test caused the sharp edges of some of the dried ingredients in the soup mixes to work their way through the plastic lining. When that happens and the air gets in there's a bad risk that in hot weather the whole package will turn rancid."

This is why Campbell then set its research people to devising a new type of aluminum can container for the dehydrated mixes. They have come up with a can that opens without resort to can opener—tear off a small metal tab on the top and the lid comes right off.

More Campbell research men have been devising ways of freeze-drying the ingredients of dehydrated soup mixes. The plants in which the soup is made have to be atmospherically controlled; moisture in the air must be cut to about 15%. It all adds up to an expensive business. Says Murphy: "It costs this industry an average of about 4 cents a pound to freeze-dry the water out of vegetables, and when you realize that a tomato is 96% water, you begin to see how the costs mount up." But this does not keep Murphy from making a solid bid for this part of the market.

One of the biggest problems a soupmaker has, Murphy believes, is to assure the quality of its product—of every can it turns out. "You can't," he insists, "tell the woman who buys a defective can of soup that your average product quality is high. She's interested only in the cans she buys—not in the mathematical average." Putting the new dehydrated

soup mix in a can is Murphy's way of defending his company against the chance that a dehydrated soup mix might turn sour.

Picking a Theme

This quality theme has long been the strong point of all Campbell's marketing tactics. John Volkhardt, marketing vice president of Corn Products' Best Foods division, says in envious admiration: "Campbell is a big spender on advertising and a mighty effective one. It had the good fortune to find a solid advertising theme—and the good sense to stick with it."

Despite the imminent war in the supermarkets, the major soupmakers are all—like Volkhardt—still being publicly polite to each other. Some of Corn Products' men, indeed, seek to soft-pedal any suggestions that a soup war is brewing. But one small soupmaker, not big enough to do anything but watch from the sidelines, says: "It seemed to me in midsummer that Corn Products was saying, 'Look out Campbell, here we come!' And now Campbell has made its reply. It certainly looks like we're in for a hot time."

Corn Products' Chairman William T. Brady recognizes that for all his company's money and power, the competition is going to be rough. But he says: "We're confident we will win a sizable share of this half-billion-dollar market—and help to build a still larger market."

To ladle up its share of the market, Corn Products pins most of its hopes to a complex mixture of marketing tactics, eating habits and big money. It started off with a whole line of soups from the recipe book of Walter Obrist, the Swiss head chef of Knorr. But Corn Products' soup specialists decided that some of the soups had to be Americanized. Says Vice President Volkhardt: "We couldn't expect to sell here in the U.S. exactly the same kind of soups that Knorr sells in Europe. The Europeans like their soup heavy and fatty. We couldn't offer that to Americans. So we changed the recipes here and there, cut down the fat content, reduced the amount of spices, but increased the number of other ingredients. Now, for just seven soup flavors we use close to 100 ingredients."

Europe in the Dish

But these changes from the original do not force any other changes in Corn Products' second set of marketing devices. These put the emphasis on the exotic foreign flavors of the soups being turned out in the Illinois factory. "Take a kettle cruise of Europe," says the promotional text on the new Knorr soup packages, offering a quick, cheap, vicarious jaunt to Europe through the medium of the soup dish, and simultaneously hinting that only the less venturesome will stick with the brands they have known for years.

Corn Products also has come up with another marketing technique to heat up its sales. Volkhardt, who as Corn Products' soup expert has spent

the last two-and-one-half years watching over the formulating, testing and introduction of his company's new product, explains: "A dehydrated soup can look pretty thin when it's made up unless there's a careful balancing of ingredients. Large lumpy ingredients, like big chunks of mushrooms, can't go in because they are very difficult to reconstitute; it takes too much time in cooking to get the water back into them. So we add leafy vegetables to the mixture. These, floating in the soup, give it more bulk." Adds another Corn Products executive: "It gives the customer something to *chew*."

To back up such tactics as these, Corn Products is spending what even Chairman Brady (who this year has approved a world-wide advertising budget for the whole company of between $40 million and $50 million) calls a "massive promotion program" for the new soups.

Just how much Corn Products spent on its new plant in Illinois is not publicly known; it keeps the price, and the plant's capacity, secret for fear of revealing too much to the competition. But the plant is so crammed with automated machinery that, says Volkhardt, "we can turn out as much soup there with about 125 people in the plant as we can in a Knorr European plant with 600 people."

Lipton, quietly enjoying the proceeds of its large slice of the U.S. market for dehydrated soups for the last decade, now faces the competition of companies that are five and six times as large. So far, though, Lipton admits to no plans for heavier advertising or new products, or to apprehension about the competition. Indeed, a Lipton executive says: "It's good to see all these people getting into the dehydrated soup business. It reassures us that we've been doing the right thing all this time."

But competitors note that Lipton may well be worried as the giants prepare to do battle around it. Just a few months ago it acquired for an unannounced sum the famed Good Humor Corp., vendor of frozen ice cream sticks. The move put Lipton into a totally new field (for it), and other soupmakers feel it was a sign that Lipton thought it had better start diversifying into less-contested food markets.

Like Lipton, Heinz also takes a closemouthed attitude to the sudden upheaval in the soup business. One Heinz man puts it this way: "Soup is a big business, and there is plenty of room in it for lots of companies."

More Millions Ahead

The market they are all shooting for is by no means restricted to its present $500-million-a-year size. In an era when dieting and calorie-counting are among the greatest national pastimes, soup sales have almost doubled in the last decade. The soupmakers see no reason why the rapid growth should not continue.

The reasons, say the soupmakers:

The great baby boom, perhaps not as pronounced now as it was in the immediate postwar years, but potentially just as great in the years ahead as

all those wartime and postwar children reach maturity. Children, the soupmakers find, are among the biggest sippers—or slurpers—of soup.

Increasingly, soup is substituted for other foods, is not eaten in addition to them. As Campbell's Murphy likes to point out: "A dish of beef soup and a glass of milk have all the nutritive value of a much heavier meal—and far fewer calories, to boot."

The U.S. housewife is getting more adventurous in her cooking all the time, particularly when it comes to brewing sauces. This, too, puts verve into soup sales, because soup is being used more and more as a basis for those sauces. Campbell's, for instance, has found that at least one out of every two cans of mushroom soup it produces goes into stews and casseroles.

The razzle-dazzle of the big Campbell *vs.* Corn Products competition, and the campaigns of the other soupmakers that may well begin as the battle for the market gets sharper, should add their part to the growth of the whole soup business—and possibly result in a raft of new marketing techniques as well.

4 The Marketing Revolution*

BY ROBERT J. KEITH†

The consumer, not the company, is in the middle.

In today's economy the consumer, the man or woman who buys the product, is at the absolute dead center of the business universe. Companies revolve around the customer, not the other way around.

Growing acceptance of this consumer concept has had, and will have, far-reaching implications for business, achieving a virtual revolution in economic thinking. As the concept gains ever greater acceptance, marketing is emerging as the most important single function in business.

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* Reprinted from the *Journal of Marketing*, national quarterly publication of the American Marketing Association, Vol. 24, No. 3 (January, 1960), pp. 35–38.

† Robert J. Keith is Executive Vice President, consumer products area, and a Director of The Pillsbury Company. He joined Pillsbury in 1935.

He is responsible for the gocery-products division and the refrigerated-products division. His influence has been invaluable in achieving the company's present consumer orientation.

Business today, the author maintains, is in the throes of a marketing revolution. This revolution is based on a change of philosophy, and one of its effects will be the emergence of marketing as the dominant function in American business.

A REVOLUTION IN SCIENCE

A very apt analogy can be drawn with another revolution, one that goes back to the sixteenth century. At that time astronomers had great difficulty predicting the movements of the heavenly bodies. Their charts and computations and celestial calendars enabled them to estimate the approximate positions of the planets on any given date. But their calculations were never exact—there was always a variance.

Then a Polish scientist named Nicolaus Copernicus proposed a very simple answer to the problem. If, he proposed, we assume that the sun, and not the earth, is at the center of our system, and that the earth moves around the sun instead of the sun moving around the earth, all our calculations will prove correct.

The Pole's idea raised a storm of controversy. The earth, everyone knew, was at the center of the universe. But another scientist named Galileo put the theory to test—and it worked. The result was a complete upheaval in scientific and philosophic thought. The effects of Copernicus' revolutionary idea are still being felt today.

A REVOLUTION IN MARKETING

In much the same way American business in general—and Pillsbury in particular—is undergoing a revolution of its own today: a marketing revolution.

This revolution stems from the same idea stated in the opening sentence of this article. No longer is the company at the center of the business universe. Today the customer is at the center.

Our attention has shifted from problems of production to problems of marketing, from the product we *can* make to the product the consumer *wants* us to make, from the company itself to the market place.

The marketing revolution has only begun. It is reasonable to expect that its implications will grow in the years to come, and that lingering effects will be felt a century, or more than one century, from today.

So far the theory has only been advanced, tested, and generally proved correct. As more and more businessmen grasp the concept, and put it to work, our economy will become more truly marketing oriented.

PILLSBURY'S PATTERN: FOUR ERAS

Here is the way the marketing revolution came about at Pillsbury. The experience of this company has followed a typical pattern. There has been nothing unique, and each step in the evolution of the marketing concept has been taken in a way that is more meaningful because the steps are, in fact, typical.

Today in our company the marketing concept finds expression in the simple statement, "Nothing happens at Pillsbury until a sale is made." This statement represents basic reorientation on the part of our manage-

ment. For, not too many years ago, the ordering of functions in our business placed finance first, production second, and sales last.

How did we arrive at our present point of view? Pillsbury's progress in the marketing revolution divides neatly into four separate eras—eras which parallel rather closely the classic pattern of development in the marketing revolution.

1ST ERA—PRODUCTION ORIENTED

First came the era of manufacturing. It began with the formation of the company in 1869 and continued into the 1930s. It is significant that the *idea* for the formation of our company came from the *availability* of high-quality wheat and the *proximity* of water power—and not from the availability and proximity of growing major market areas, or the demand for better, less expensive, more convenient flour products.

Of course, these elements were potentially present. But the two major elements which fused in the mind of Charles A. Pillsbury and prompted him to invest his modest capital in a flour mill were, on the one hand, wheat, and, on the other hand, water power. His principal concern was with production, not marketing.

His thought and judgment were typical of the business thinking of his day. And such thinking was adequate and proper for the times.

Our company philosophy in this era might have been stated this way: "We are professional flour millers. Blessed with a supply of the finest North American wheat, plenty of water power, and excellent milling machinery, we produce flour of the highest quality. Our basic function is to mill high-quality flour, and of course (and almost incidentally) we must hire salesmen to sell it, just as we hire accountants to keep our books."

The young company's first new product reveals an interesting example of the thinking of this era. The product was middlings, the bran left over after milling. Millfeed, as the product came to be known, proved a valuable product because it was an excellent nutrient for cattle. But the impetus to launch the new product came not from a consideration of the nutritional needs of cattle or a marketing analysis. It came primarily from the desire to dispose of a by-product! The new product decision was production oriented, not marketing oriented.

2ND ERA—SALES ORIENTED

In the 1930s Pillsbury moved into its second era of development as a marketing company. This was the era of sales. For the first time we began to be highly conscious of the consumer, her wants, and her prejudices, as a key factor in the business equation. We established a commercial research department to provide us with facts about the market.

We also became more aware of the importance of our dealers, the wholesale and retail grocers who provided a vital link in our chain of distribution from the mill to the home. Knowing that consumers and dealers

as well were vital to the company's success, we could no longer simply mark them down as unknowns in our figuring. With this realization, we took the first step along the road to becoming a marketing company.

Pillsbury's thinking in this second era could be summed up like this: "We are a flour-milling company, manufacturing a number of products for the consumer market. We must have a first-rate sales organization which can dispose of all the products we can make at a favorable price. We must back up this sales force with consumer advertising and market intelligence. We want our salesmen and our dealers to have all the tools they need for moving the output of our plants to the consumer."

Still not a marketing philosophy, but we were getting closer.

3RD ERA—MARKETING ORIENTED

It was at the start of the present decade that Pillsbury entered the marketing era. The amazing growth of our consumer business as the result of introducing baking mixes provided the immediate impetus. But the groundwork had been laid by key men who developed our sales concepts in the middle forties.

With the new cake mixes, products of our research program, ringing up sales on the cash register, and with the realization that research and production could produce literally hundreds of new and different products, we faced for the first time the necessity for selecting the best new products. We needed a set of criteria for selecting the kind of products we would manufacture. We needed an organization to establish and maintain these criteria, and for attaining maximum sale of the products we did select.

We needed, in fact, to build into our company a new management function which would direct and control all the other corporate functions from procurement to production to advertising to sales. This function was marketing. Our solution was to establish the present marketing department.

This department developed the criteria which we would use in determining which products to market. *And these criteria were, and are, nothing more nor less than those of the consumer herself.* We moved the mountain out to find out what Mahomet, and Mrs. Mahomet, wanted. The company's purpose was no longer to mill flour, nor to manufacture a wide variety of products, but to satisfy the needs and desires, both actual and potential, of our customers.

If we were to restate our philosophy during the past decade as simply as possible, it would read: "We make and sell products for consumers."

The business universe, we realized, did not have room at the center for Pillsbury or any other company or groups of companies. It was already occupied by the customers.

This is the concept at the core of the marketing revolution. How did we put it to work for Pillsbury?

The Brand-Manager Concept

The first move was to transform our small advertising department into a marketing department. The move involved far more than changing the name on organizational charts. It required the introduction of a new, and vitally important, organizational concept—the brand-manager concept.

The brand-manager idea is the very backbone of marketing at Pillsbury. The man who bears the title, brand manager, has total accountability for results. He directs the marketing of his product as if it were his own business. Production does its job, and finance keeps the profit figures. Otherwise, the brand manager has total responsibility for marketing his product. This responsibility encompasses pricing, commercial research, competitive activity, home service and publicity coordination, legal details, budgets, advertising plans, sales promotion, and execution of plans. The brand manager must think first, last, and always of his sales target, the consumer.

Marketing permeates the entire organization. Marketing plans and executes the sale—all the way from the inception of the product idea, through its development and distribution, to the customer purchase. Marketing begins and ends with the consumer. New product ideas are conceived after careful study of her wants and needs, her likes and dislikes. Then marketing takes the idea and marshals all the forces of the corporation to translate the idea into product and the product into sales.

In the early days of the company, consumer orientation did not seem so important. The company made flour, and flour was a staple—no one would question the availability of a market. Today we must determine whether the American housewife will buy lemon pudding cake in preference to orange angel food. The variables in the equation have multiplied, just as the number of products on the grocers' shelves have multiplied from a hundred or so into many thousands.

When we first began operating under this new marketing concept, we encountered the problems which always accompany any major reorientation. Our people were young and frankly immature in some areas of business; but they were men possessed of an idea and they fought for it. The idea was almost too powerful. The marketing concept proved its worth in sales, but it upset many of the internal balances of the corporation. Marketing-oriented decisions resulted in peaks and valleys in production, schedules, labor, and inventories. But the system worked. It worked better and better as maverick marketing men became motivated toward tonnage and profit.

4TH ERA—MARKETING CONTROL

Today marketing is coming into its own. Pillsbury stands on the brink of its fourth major era in the marketing revolution.

Basically, the philosophy of this fourth era can be summarized this way: "We are moving from a company which has the marketing concept to a marketing company."

Marketing today sets company operating policy short-term. It will come to influence long-range policy more and more. Where today consumer research, technical research, procurement, production, advertising, and sales swing into action under the broad canopy established by marketing, tomorrow capital and financial planning, ten-year volume and profit goals will also come under the aegis of marketing. More than any other function, marketing must be tied to top management.

Today our marketing people know more about inventories than anyone in top management. Tomorrow's marketing man must know capital financing and the implications of marketing planning on long-range profit forecasting.

Today technical research receives almost all of its guidance and direction from marketing. Tomorrow marketing will assume a more creative function in the advertising area, both in terms of ideas and media selection.

Changes in the Future

The marketing revolution has only begun. There are still those who resist its basic idea, just as there are always those who will resist change in business, government, or any other form of human institution.

As the marketing revolution gains momentum, there will be more changes. The concept of the customer at the center will remain valid; but business must adjust to the shifting tastes and likes and desires and needs which have always characterized the American consumer.

For many years the geographical center of the United States lay in a small Kansas town. Then a new state, Alaska, came along, and the center shifted to the north and west. Hawaii was admitted to the Union and the geographical mid-point took another jump to the west. In very much the same way, modern business must anticipate the restless shifting of buying attitudes, as customer preferences move north, south, east, or west from a liquid center. There is nothing static about the marketing revolution, and that is part of its fascination. The old order has changed, yielding place to the new—but the new order will have its quota of changes, too.

At Pillsbury, as our fourth era progresses, marketing will become the basic motivating force for the entire corporation. Soon it will be true that every activity of the corporation—from finance to sales to production—is aimed at satisfying the needs and desires of the consumer. When that stage of development is reached, the marketing revolution will be complete.

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5 The Chemical Boom: Will New Stress on Marketing Make It Even Bigger?*

Chemicals, one of the most dramatic growth industries, is verging on a marketing revolution. Cause: Intensive competition has begun to force down prices. Profits are shrinking.

Not long ago a chemical company could succeed on new products alone. But no longer. The newly tightened market demands full marketing programs. That is why, as this report shows, the chemical industry is exploring the frontiers of marketing as avidly as it explores the frontiers of chemistry.

"Almost every week the price on some item breaks—and there's no end in sight."

The speaker was the marketing director of a well-known chemical company, and he was talking about plastics, whose prices have been edging steadily downward for more than six months, slimming profit margins to the desperation point for many manufacturers. His statement spotlights one of the most perplexing anomalies in modern industry—and one that is particularly pressing to marketing men in the chemical industry.

The anomaly, in a nutshell, is this: Chemicals—and especially the petro-chemicals, which include plastics materials—have displayed one of the most spectacular growth surges of any industrial area since World War II. At the same time, chemicals—and especially plastics—have been hit recently by extreme competition and price reduction, which has cut deeply into profits.

As a result, the chemical companies, which have relied heavily on research and development to continue expansion, are now scrambling to sharpen their marketing tools. The companies that are in the soundest positions today are not necessarily those that have concentrated on introducing streams of spectacular new products, but those whose expansion is based on complete, well-rounded marketing over a period of many years.

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In a recent spot check of chemical companies, *Printers' Ink* found nearly half of the firms contacted were undergoing major changes in their marketing plans and organizations. When the survey was completed, it showed that a change is taking place in chemicals marketing that verges on revolution—and which no chemicals company can afford to ignore if it hopes to maintain its place in the market.

I. The Growth Years

The backdrop for these radical changes is one of the most exciting growth stories in recent industrial history. An insignificant business at the turn of the century in terms of total U.S. industry, chemicals are now the fourth largest manufacturing field. They have grown from sales of $4.9-billion in 1940 to $16.4-billion in 1950, and to $27.7-billion in 1960. At this rate they will reach $54-billion in 1970. A recent report on the industry by investment counselors Merrill Lynch, Pierce, Fenner & Smith indicates this estimate may prove conservative.

The chemicals industry has grown at a rate just double the U.S. industrial average. While industry as a whole has increased an average 3.5 per cent annually since 1941, chemicals has grown seven per cent. Today the chemical industry has assets of more than $24-billion, is spread over 12,000 manufacturing plants, producing more than 11,000 different substances and employing over 880,000 people.

Plastics are the most spectacular of the chemical products. Sales in the plastics area have practically doubled every five years since World War II. Production has climbed from one-billion pounds in 1946 to six-billion in 1960. Plastics are now major materials in scores of product categories, from sweaters to yachts.

While some have been around for as long as 50 years, many plastics still show good growth potential, others appear to be just getting started. One new one is General Electric's high-strength polycarbonate plastic called Lexan, which is expected to replace metals in several uses. Starting this year in a five-million-pound capacity plant, Lexan production is projected at 30- to 50-million pounds by 1965, perhaps 100-million by 1970. And Lexan is just one of a whole family of new polycarbonates.

Polypropylene—a tougher, stronger, more heat-resistant member of the polyethylene family—and the foaming polyurethane are other new arrivals on the plastics scene. Appearing within the past four years, both have great possibilities. The rigid form of polyurethane, for example, has applications in the construction field, which is just beginning to open up for plastics.

Synthetic fibers—another big segment of the petrochemicals field—are also growing fast. Production rocketed from 35-million pounds in 1945 to 613-million in 1960, and new fibers continue to appear in a steady stream. Production of nylon alone—oldest of the strictly synthetic fibers —is expected to rise some 40 per cent in the next five years. Meanwhile,

the acrylic fibers (Orlon, Acrilan, Dynel, Creslan, Verel, Zefran), are making even more rapid strides. Production of 50-million pounds of acrylics in 1960 is expected to double by 1965. "Total synthetic consumption, which reached 613-million pounds in 1960, can be expected to exceed the billion-pound mark by 1965," predicts the Merrill Lynch report.

Some of the older established chemicals are almost as promising. Much attention is turning toward agricultural chemicals—fertilizers, insect- and weed-killers. Fertilizer production has climbed from 3- to 25-million tons since 1900. Sales reached $1-billion in 1960 and are expected to double by 1975. Relatively high profits make this segment of the industry especially attractive.

Industrial gases are another area that has been growing dramatically but without much fanfare. Spurred on by heavier use of oxygen in steel-making, and of hydrogen in rocket fuels, industrial gas sales increased 160 per cent during the 1950s, compared with a 90 per cent growth for chemicals over-all. Expected growth in the next five years is ten per cent annually.

Even the bulk industrial chemicals—alcohols, aldehydes, acids, etc.—should continue to grow comfortably, reflecting over-all industrial growth and population increases.

One factor that seems to insure steady expansion in chemicals is the industry's huge outlay for research and development—the rate is now some $700-million a year. Du Pont's share alone is reportedly some $93-million. About 400 new chemical products come out of the test tubes every year. "Company after company reports that 30 or 40 or even 50 per cent of current sales come from products not even on the market five years ago," reports Merrill Lynch.

II. The Other Side

Counterbalancing this glamorous picture of growth is the grim fact of shrinking profits. A few examples typify the industry's predicament. According to Moody's Investment Service, operating profits at Dow Chemical Co. slid from some 31 per cent in 1950 to 19 per cent in 1959, and to 12.4 per cent in 1960. Du Pont, the giant of the industry, saw profits fall from around 31 per cent in 1950 to 22 per cent last year. Allied Chemical, which operates mainly in the field of basic chemicals, with some production of plastics and other petrochemical substances, dropped from 18 per cent in 1950 to 12.9 in 1960, reaching a low point of 9.7 per cent in 1958.

Chemical sales in 1960 grew eight per cent above the previous year—but net profits fell seven per cent.

The very attraction of high profits was one of the biggest causes. Recent years have seen a strong swing by oil companies—also tightly squeezed for profits—into petrochemicals. Many of these companies have entered the field with aggressive advertising and marketing programs that

have shaken up the big established chemical companies such as Dow, Monsanto, Union Carbide, Olin Mathieson, du Pont, Allied Chemical, and American Cyanamid. Stepping up the competitive fray with increased ad schedules in the past year have been Gulf Oil, Enjay Chemical Co. (a division of Humble Oil), Sinclair Petrochemicals, Continental Oil Co.

A most recent development is the diversification into petrochemicals of several companies whose major operations are considerably removed from the chemicals field. These include Eastman Kodak, W. R. Grace, Koppers, and National Distillers. And on top of this, the effects of some foreign entries are beginning to be felt.

"The simple fact is that we have a situation of overproduction in petrochemicals," said one industry spokesman, "and everybody is hurting."

The industry's massive research is also producing lower-cost production methods, which drive prices down.

While prices are beginning to hold firm in some areas, there is widespread agreement that slim profits are here to stay in the chemical industry.

III. Effects on Marketing

The profit squeeze is not endemic to the chemical industry alone, but marketing men in this industry are responding to it in a degree seen in few other industries. A large number of chemicals firms of all sizes and types are currently revamping their marketing operations. Others have recently completed major changes, or are carefully considering them.

One widespread move has been to strengthen the product manager system, giving product managers greater authority and increased responsibility for profits on their lines.

Another step that a number of companies have taken is to bring more corporate operations under the marketing umbrella. In some cases even purchasing has been put into the marketing department, and closer liaison has been established between marketing and research.

In many cases a serious re-evaluation of advertising is under way; in some instances, basic changes are being made in advertising programs.

In the last few months these marketing developments have occurred among chemical companies:

Stauffer Chemical, New York, has been consolidating moves started in early 1960 to streamline marketing operations. A new post of marketing director has been created with authority over marketing operations of all nine divisions, and coordinating the functions of sales, purchasing, traffic, advertising and packaging. The move followed closely the acquisition of Victor Chemical by Stauffer in 1959, and brought Victor ad manager E. M. Meyers to New York to head up the Stauffer advertising department, directly under the new marketing director, Samuel Emerson.

General Aniline & Film Corp. reshuffled its top management, is placing increased emphasis on marketing operations.

Union Carbide Chemicals drew up its first fully coordinated marketing plan

for all product lines this fall, funneling all marketing operations through one marketing director. The basic change was made about a year ago, when product managers were given full responsibility for profits on their lines, and greater authority over sales and advertising. Until then the vice-president in charge of marketing had been on a level with the vice-president in charge of sales, and both had reported to a third vice-president without portfolio. In the past year accounting systems have been shifted to give product managers greater control over marketing operations for their lines. This fall written objectives were drawn up for each line. From now on the product managers will be working closely with the advertising department along a basic plan aimed at achieving those objectives.

Olin Mathieson also made major changes in its marketing organization this fall. A new direction was already visible in its chemicals ad campaign that broke last summer with four-color spreads in horizontal business magazines, emphasizing service and delivery of basic industrial chemicals. Handled by VanSant, Dugdale & Co., Baltimore, the campaign uses highly imaginative photographic treatment.

IV. Success Factor

Behind these moves is the growing realization in the chemicals industry that the companies in a strong position in today's tough market are those that have not only developed a constant stream of successful new products, but have also pursued a well-rounded marketing program to sell those products.

One peculiarity of the chemicals industry that strongly affects marketing is that a very large share of its products is sold to other chemical companies. Reciprocal buying and selling is essential and commonplace. This is why Stauffer brought purchasing under the marketing function this year, and many other companies have instituted similar setups. But it is precisely because of this prevalence of reciprocity that many chemicals officials feel especially strong marketing efforts are needed to expand their sales.

Marketing efforts have figured prominently in the histories of today's leading, best-established chemical firms. Advertising expenditures are still much lower than research and development—a typical ratio is five to one against advertising—but marketing men help set the directions of research and development to a large degree.

Rohm & Haas, Philadelphia, whose growth is based largely on the production of Plexiglas, owes much of its success to an aggressive program of searching out new uses and markets. With about one per cent of sales going into advertising (this is near the industry average), and roughly five per cent going into research, Rohm & Haas runs regular schedules in about 100 business papers—in addition to extensive radio and magazine advertising for its agricultural products.

Rohm & Haas really began its career with the introduction of Plexiglas shortly before the outbreak of World War II. Wartime production provided a ready market for this material, for such uses as bullet-proof transparent "bubbles" on bombers.

The end of wartime production left the company with the problem of finding civilian uses for its product. That is when advertising began to assume a heavy role. Running in a wide variety of publications, Plexiglas product ads were used to explore possible market areas, and designed to get executives in these areas thinking about Plexiglas and its possible applications to their own operations.

With the help of these ads Plexiglas has found thousands of civilian applications. One of the widest is in signs. Starting with Shell Oil service-station signs, its use has spread to virtually every gasoline company and to thousands of other sign users.

Meanwhile, Rohm & Haas has been busily developing new products in its research laboratories; these have been introduced in much the same way. The company is now a major force in acrylic-based plastics, paper coatings, paints and finishes.

Most chemical companies have developed orderly, step-by-step advertising programs that carry products through the introductory stages and keep interest in them alive once they have become established. National Starch & Chemical Co., New York—another steadily expanding company—has developed a classic formula for doing this with its agency, G. M. Basford.

National Starch usually runs three stages of product ads:

First, "exploratory" ads designed to reap as many inquiries and uncover as many potential uses for the product as possible.

Second, ads on applications of the product, designed to expand its uses and markets.

Finally, documented case histories and testimonials on the product, designed to bolster its position in the market and establish a firm image of high quality for both the product and for National Starch.

In carrying this out, the company runs exploratory ads in horizontal chemicals industry publications regularly, and a schedule in Business Week. These series feature different products and product lines in almost every ad. In addition, National Starch uses some 35 specialized business publications.

The company has used this formula successfully in its campaign for Wood-Lok glue, for example—a product now over a decade old and still vigorously advertised. Early business-paper ads blanketed the furniture field, where National Starch believed the greatest potential lay, and illustrated the types of joints that could be glued with the product, as demonstration of its many applications. Backed by direct mail, the campaign also stressed the glue's superior qualities when compared directly with animal glues, which were still common at that time.

Soon afterward, ads highlighted a series of tests, conducted by a college of forestry, comparing the two types of glue. Next, testimonials were solicited from users as soon as the glue had a chance to penetrate markets.

Since then, many variations on this theme have been used to keep the

ads effective. Research efforts have been closely coordinated with marketing—special presses were designed for use with the glue, improvements and modifications have been introduced in the product itself. A dozen years after the product was introduced, the company ran ads on how well the first joints glued with Wood-Lok had held up.

Sharp attention has also been focused on the area of sales—important in all industrial marketing and especially in the chemical industry, where orders are usually very large and the number of customers is limited. One of the best examples of vigorously updated selling efforts is Stein Hall & Co., New York, a relatively small company that has established a secure position in adhesives, paper coatings and several other specialized chemical fields. As in most chemical companies, research and development expenditures far exceed advertising. But, said president Lawrence Gussman, "Research and development draw greatly from the marketing area."

Contrary to most firms in the chemicals industry, Stein Hall's gross profits rose 80 per cent between 1956 and 1960, with about 25 per cent increase in sales of manufactured products. Gussman gives major credit to the company's vigorously pursued system of "selective selling," initiated in 1954 and continuously expanded and refined.

Under Stein Hall's selective selling, salesmen are completely customer-oriented. Ninety per cent of the sales force is trained especially for a single industry; men serving the ice cream field, for example, go through a regular course in ice cream manufacturing, are able to run an entire plant.

Working closely with his branch manager, vice-president in charge of sales, and industry manager, the salesman pinpoints "target customers" and "target prospects." Then complete records are kept electronically on each; quarterly reports are also made for each. Every quarter, industry managers meet with the vice-president in charge of sales to review target accounts and weed out the unproductive ones.

Advertising, produced by the Lavenson Bureau of Advertising in Philadelphia, serves primarily to back up the selective selling system—first by producing inquiries that serve as sales leads; second, by introducing new products. "A number of important markets have developed from advertising inquiries," said Gussman.

Summing up his business philosophy, he commented, "You might say this marketing program is the whole guts of our business."

V. New Boom?

These are just a few indications of the directions that chemical firms are taking in their search for more effective marketing—a search that has taken on prime urgency in the face of slipping prices and profit margins. Other efforts—such as du Pont's elaborate consumer advertising program designed to help create markets for the ultimate producers of consumer

products—are well known. (Most of the industry giants, incidentally, are now getting deeply into this type of program—designed to acquaint the public with the company's products even though the company itself is several steps removed from the public in the chain of sales. Dow, Monsanto, Union Carbide and Olin are outstanding examples.)

The chemical industry is now exploring the frontiers of marketing as avidly as it has been exploring the frontiers of chemistry. At present a period of consolidation, of fat-trimming and even some retrenchment has set in as a result of the profit squeeze. Indications are that it presages a new chemicals market explosion—this time based on highly improved marketing efficiency—in the coming decade.

6 How Smart Marketing Put United into a New Field*

BY WILLIAM G. HARKEY†

By some standards, United Carbon Products Co. is a tiny company. Yet it has developed and put into action a marketing program that would be worthy of any of the industrial giants. Here's the story of that program—the story of how United bucked both big companies and price-cutting alley shops to come out on top in a new market.

How can a small company break into an entirely new field, buck well-heeled, well-established—and much bigger—competitors and come out on top?

The answer is "integrated marketing." We know because we did it.

We did it inside of two years—and in the crazily burgeoning electronics industry.

United Carbon Products Co. is only 15 years old. It was organized just after World War II by a former Dow Chemical Co. researcher, George T. Sermon (now United's president), who had developed a new and better method for purifying graphite.

At first the big market for United's ultra-pure graphite was the Atomic Energy Commission, which used the product in its nuclear piles. When the nuclear reactor program slowed, United switched to producing

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† Marketing Director, United Carbon Products Co., Bay City, Mich.

graphite electrodes for laboratory spectrographs, which are used to determine the content of various materials. The extreme purity of United's graphite made it ideal for this application, but the market was static. United's sales reached a relatively low peak—and stayed there.

Into Electronics

Then, in 1957, some strange requests began to come in—requests from producers of transistors, diodes and rectifiers who needed graphite tools to make their products.

Like the whole electronics business, the manufacture of such semiconductor devices had suddenly burst into big business. In 1954, only 1.3 million transistors worth $5.1 million were produced. Three years later, the transistor manufacturers were producing 28.7 million units amounting to $69.7 million. In 1959, the volume was about 80 million units worth $180 million. By 1965 annual production probably will be 450 million units worth $400 million.

With this kind of growth it's no wonder the industry was a mass of confusion. Buying personnel were "flip-flopping" from one company to another, designs were obsolete before they could be produced, specifications might be changed three or four times between a quote and an order. But we decided to plunge into this maelstrom, aiming to devise and implement a marketing plan that would win a sizable chunk of the total graphite tool market—the bigger the chunk, the better. For a company that, in 1956, had a total volume of a little over $400,000 the project of hitting this fast-moving market was fraught with danger.

Physical Problems

A major problem that had to be considered was the fact that we had only some 20,000 square feet of crowded manufacturing space and about 30 employes. And, while our equipment was well geared to the flow of spectroscopic electrodes, it was totally inadequate for efficient production of the tight-tolerance, super-finished semiconductor jigs and fixtures. Perhaps the most restricting factor was that we were entering a virgin field of machining. Our new tool and die men and machinists would be starting from scratch because the differences between the precision machining of steel and that of graphite are tremendous. A whole new personnel procurement and training program had to be initiated to overcome this obstacle.

At the same time, we could by no means allow production of our spectroscopic products to slacken. So everyone would have to do two jobs until we were over the hump. It was apparent that while all these problems were being solved, it would be absolutely essential that we physically enlarge our main building to make room for the new men and machines.

If the physical problems were tough, a good look at the marketing

obstacles was enough to send shivers down our back. We were proposing to lock horns with some of the biggest, oldest and most revered names in the industry—National Carbon, Pure Carbon, Speer Carbon, Stackpole and others—all fine companies, with experienced and alert management. We knew our plans would not go unnoticed. Yet, in a way, we were not so apprehensive about the "big boys" as we were about the scores of "alley shops" around the country, hungry for business, intent on getting in on this booming industry. We did not have the full stature of the "giants"; neither could we offer the rock bottom prices of the "alley shop." Here was another tough nut that had to be cracked—fast.

Researching a Virgin Market

Exactly how big was the market . . . exactly where was it located . . . how could it best be sold . . . on what kind of a price structure . . . and, finally, how did it look five years and ten years ahead? These questions we had to answer, our board of directors decreed, before we (the United management group) could commit the company to the integrated marketing program we had in mind. We had to find the answers in a "virgin market," where there were no reliable sources of information, where there was a general suspicion and a reluctance to impart any significant facts—a wild world of rumor and fantastic estimates, running from the super-conservative to the sublimely ridiculous.

Yet, on the bright side, we received a great deal of help, particularly from media. The staffs of *EEM Clip/File*, *Electronic Design*, *Electronic Industries*, *Electronics* and *Semiconductor Products* gave us invaluable information and advice. The one saving grace in the market itself was compactness—there are only about 125 major producers of semiconductor devices. Also, previous market forecasts had shown, any errors would almost certainly be on the side of conservatism. So, we did have minor consolations.

We found that the three major branches of the semiconductor market were in the military (missiles and rockets), industrial (computers and automated devices) and entertainment (portable radios, clocks and tv sets) fields. The biggest market has been the military, but soon the industrial field will account for the lion's share.

The quality and reliability of semiconductor devices for the military might be hundreds of times greater than that for a portable radio. But even in the less critical areas of industrial and entertainment electronics, the quality standards are moving higher and higher. We welcomed this stress on reliability and quality because of the purity of our graphite. Our experience in working to extreme tolerances in machining graphite for the spectrographic field also would stand us in good stead, we learned, because of the one- to two-thousandth of an inch tolerances required in graphite tools used to manufacture transistors.

So far, so good, we thought, now let's start digging for customers.

Where Are They?

We started simply by reading everything published on the subject. This included our own technical representatives' reports, trade publication articles, publishers' market reports, speech material and government statistics.

Key information also came from the Bell Telephone Research Laboratories, which estimated that transistor, diode and rectifier production would reach $1.6 billion by 1968, and at the same time prices would fall from the 1958 figure of $2.30 per unit to 70¢. Because we make graphite production tools, we were primarily concerned with an estimate of units produced. Allowing for the unit price reduction of from $2.30 to 70¢, can be seen that the growth during this period in relation to the units produced is considerably greater than the dollar volume growth. This fact added to our optimism. Other information similar to the Bell estimates was used to cross-check, and assimilated into our over-all study.

Feeling assured of growth prospects in the field, we set out to locate our prospects geographically. To do this, we turned to such directories as *Electronics Buyers' Guide*, *Electronic Engineers Master*, *MacRae's Blue Book* and *Thomas Register*. From these we compiled a list of about 100 major semiconductor manufacturers. The list was plotted geographically and then screened financially. The "cream" of the manufacturers were then listed state by state revealing four major pockets of concentration: Boston, New York City metropolitan area, San Francisco and Los Angeles. Other areas of secondary importance were found in Arizona, Texas, Indiana, Minnesota, Illinois and Pennsylvania.

Knowing, in a relative sense, the location and potential of the market, our final important question was "How much graphite is being purchased today by these semiconductor manufacturers?" Coming to grips with this problem was difficult. Due to the fierce competitive struggle among semiconductor manufacturers, most were unwilling to open plants for our inspection. But we did know several representative manufacturers who were willing to cooperate. From these we got reliable estimates of annual graphite usage. Then, we induced our publisher friends—who had wider contacts—to seek further indications. From all these estimates we drew what we believed to be a realistic average annual graphite usage figure which could be applied to the plants we had previously screened. This gave us an approximate present dollar volume market figure—plus its breakdown by area and state.

The final market research step consisted of devising a timetable for sales volume achievements. This was a series of annual sales goals attained by plotting, as a minimum figure, our penetration into the market at the time against the potential transistor growth curve. We felt this would give a "basic sales goal" for United. It, of course, could be ad-

justed to the way in which transistor growth was measuring up to forecast.

There certainly would be other factors influencing our "timetable"—additions to our sales staff, promotional outlays, technological breakthroughs, the condition of our competitors, the general technology through the industry and, naturally, over-all economic conditions. The "sales volume timetable" has been computed to 1968 (and, interestingly, at the end of our first forecast year, our sales were within some $25,000 of the forecast).

The results of our research were compiled into a report which ended with this statement: "To seize this market we must ask for the most advanced attitudes on the part of the financial, productive, technical and marketing divisions of the company. In a very real sense, this study indicates that critical decisions must be promptly made if we are to properly seize the initiative." After studying the report, the United board of directors gave an okay to go ahead and attack the market.

The Technical Department Integrates

In W. E. Allsopp, our technical director, we have a rare combination of technical competence plus definite sales abilities. More than any other single person, during the formative period, he typified "integration" of the marketing and technical functions. Making frequent personal visits to the companies originally inquiring of our ability to produce graphite parts for the semiconductor industry, Mr. Allsopp thoroughly "integrated" his technical "know-how" with a true selling approach to get the first sizable orders on the books.

Mr. Allsopp and his Technical Division set out to assure the two prime requisites which our research showed us were demanded of graphite production tools by semiconductor manufacturers. These were purity and machining excellence. The answer to the purity problem was in the bag because we already were producing the purest grades of graphite commercially obtainable. Technical embarked on a quality control program to insure machining superiority. We always had had a multiple inspection system, but to meet the more rigid standards now necessary a separate quality control department was established.

New people with technical inspection backgrounds were brought into the organization and given extensive training. The very latest optical equipment was purchased so that our inspection and testing procedures would be unmatched by even the largest company we would be called upon to serve. Quality control policies were laid down to guarantee a smooth flow of all semiconductor parts to and through this department. In full operation, trial runs were fed through repeatedly until the technical director was satisfied that he could help deliver machining excellence.

Production Gears into the Over-All Program

The king-size production headache came in the area of tight-tolerance machining. Most solid state semiconductor devices are extremely small —and getting smaller. The graphite jigs which United supplies are generally about four inches long, one inch wide and one-half inch deep and have 40 to 50 minute, multiple-dimensional cavities in which are held the "heart" of the semiconductor device as it is fused under high temperatures. To compound the machining problem these intricately designed cavities are held to extremely tight tolerances. So difficult is this type of graphite machining that new concepts in both manpower and machinery had to be inaugurated.

Without disturbing his present production line of ultra purity spectroscopic products, D. J. Williams, United's director of production, had to expand the physical plant, locate and train a special breed of machinists and find the precision machines to do the job. At one time, for instance, a brand new building was being constructed around and on top of the area in which normal production of regular products never ceased. The new machining task force "jelled" just in time to expedite several large orders coming in soon after the over-all marketing program began to click.

Advertising Is Integrated for Exacting Action

For a small company dealing strictly in the spectroscopic market, with but one major competitor, our 1957 advertising budget of some $16,000 was quite respectable. This took care of space, production costs, direct mail, publicity and exhibits. Also, as a ratio of our gross sales, we felt we were not out of line compared to similar businesses. Now, we were faced with an entirely new problem. We had no sales volume figures of value—our volume was an "expected" sales volume. We had no measure of what competition was going to do in the year or two just ahead. But we did have a plan and a sales objective. Consequently, we based our appropriation on our expected sales volume of $225,000 semiconductor graphite volume in 1958; $550,000 in 1959, and so on for the first five years, allowing for annual adjustments according to our degree of success. In relation to our 1957 budget of $16,000, our 1958 figure was some 50% higher, and our 1959 figure roughly 80% higher.

While these percentage increases were truly phenomenal, the actual number of dollars which we had was mighty restricting, considering the job that had to be done.

In devising the strategy of our publication advertising, our agency, Church & Guisewite, Midland, Mich., was of invaluable assistance. Their first major decision, in which we concurred, was to break the rules and put the most of our publication budget into one book—and a brand new one—*Semiconductor Products,* a publication directed exclusively to our

market. Here was a relatively low cost publication in which we could afford both high visibility and good frequency. So we "broke the rules" and ran a nine-time, full-page schedule the first year. (This schedule has recently been increased to 12 times.) We added a full page in the special transistor issue of *Electronic Design* to pick up more inquiries. Space in these two publications accounted for approximately half the advertising budget.

Next, we needed to plan on some type of comprehensive piece of literature to present our complete story. By scrimping and shopping we created a 26-page offset catalog nicely bound in a new type of loose leaf binder. To conserve on money, we had 2,000 "insides" printed and only put 1,000 in the binders. We ordered more binders later, as the need arose.

Incidentally, this was the first catalog devoted to semiconductor graphites, which gave us a plus promotional value which is still paying off handsomely.

We sent a catalog to everyone on our original prospect list and, of course, to all new inquirers as an integral part in our campaign.

Direct Mail

By the time we got to our direct mail campaign most of our budget was gone. Yet, we realized how valuable direct mail would be in our compact market. We had established, through initial field contacts by our technical division, names and titles of primary buying influences in about 25 of the biggest semiconductor manufacturers. Our degree of penetration was roughly ten key men in each organization. Besides this, we had accumulated another 250 names, which gave us a nucleus on which to start a productive direct mail campaign. We had reason to believe, as proved out later, that our list would grow considerably through ad inquiries.

We needed direct mail badly, we figured, for four major reasons:

1. To get across to all qualified prospects a long and complicated story on why we could provide better "purity" and "machining excellence"—something that was difficult to do in the limited copy space of our publication ads.
2. To sell in depth to each primary buying influence, to the point where he would be forced to think of United whenever the need for graphite arose.
3. To build United's stature as compared to the low priced, low-quality "alley shops"—to spell out the big differences in quality, service and guarantees.
4. To gain access and recognition for our representatives in their efforts to give technical assistance.

So, the job was well defined—well integrated into the over-all marketing plan. But, the major problem was money. We had to do a million-dollar job for pennies. The one thing we did have was ad reprints, so it was only natural to think in terms of a cover letter that would either amplify the story or add new angles to it. But this would be too hard to digest unless we could add some "sugar coating." And "sugar coating"

costs money. Finally we decided the only additional cost we could stand would be some "gimmicks" to lighten up each mailing. We selected six (supplied by Hewig Co., New York) that would tie in with the sales theme of each of six letters. They were: a four-leaf clover, a small unbreakable mirror, a plastic wishbone, a small cellophane packet containing two aspirins, a small plastic hourglass and a small cellophane packet of simulated gold dust.

Each mailing promoted a United sales point, and the gimmick tied in, too, in each case. For example, the lead sentence in the aspirin letter read: "Yep—you guessed it. They're a couple of aspirin tablets to help the guy who's right in the middle of a 'crash' program!"

In addition, each of these mailings had enclosed with it an ad reprint that closely tied into the letter story, plus a pre-printed Western Union telegram blank which stated, "Like to see you concerning our graphite problems. Let me know when you're coming." Below this was a coupon to make it easy for any prospect to talk to our technical men. This "telegram" was directed to our technical director to give it added importance. The mailings were sent out in two sizes of envelopes, one 9 x 12″, the other 6½ x 9½″ in three different colors: yellow, orange and green. By properly rotating them, the recipient always received a different package.

The mailings were made two weeks apart to our growing mailing list. As names of prospects came in, they were put on Addressograph plates and into a "tickler" file where they automatically appeared every two weeks and the proper mailing was sent out until they received all six mailings plus our semiconductor graphite catalog.

This, then, took all our budget—plus a few extra dollars, but not much more. We had a lean but solid space program, a new catalog, and a complete direct mail campaign—all integrated into the over-all strategy indicated by market research and conformed to by all the departments of our company. The final step was establishing a sales setup that would capitalize on all our preliminary work.

How to Sell It

When we were concentrating on the spectrographic market, selling was a comparatively relaxed operation. Details were handled by mail, over the phone by our sales manager and his force or, if a tough problem came up, by a personal visit from our technical director or one of his staff. But the semiconductor market was more demanding in relation to personal service and multiplicity of problems. As our technical director made his first calls, it became apparent that he could spend all his time out in the field—and would need 24-hour working days to even begin to do the job. A technical service and sales force was needed as the final link to secure the market.

Our initial market research, which showed just four major geographic

concentrations of semiconductor manufacturers—Boston, New York Area, San Francisco and Los Angeles—with a few other "hot spots" between, proved its value here. Because we knew that, at the start, one man for the west coast, one man for the east coast, and our technical director for the remaining "hot spots" could cover our market in a basic way. Certainly, every efficiency pertaining to the "selective selling" was used. We had, in our spectrographic business, already employed an extremely capable man to serve the western states. To keep from making weekly jaunts to the west coast, our technical director referred some semiconductor service calls to this west coast man who, because of his fine basic knowledge of graphite, soon had a grasp of the needs of semiconductor manufacturers.

But the east coast also needed personal attention from someone who knew graphite, graphite machining, the United organization. We found the right man in our own organization—a young, technically trained man in the Technical Division who had the necessary sales aptitudes, plus the "know-how." Now, we had our major areas covered by competent men who could express the technical advantages inherent in United graphites for the semiconductor field. (Later, as sales increased, we added two more field men.)

Screening the Prospects

One of the first steps in our "selective selling" approach was to screen all prospective customers on our list. From Dun & Bradstreet and other sources, we classified prospective accounts as "primary," "secondary" and "fringe." Once this was done, we devised a method which would insure at least one personal sales call per month on every "primary" account. The "secondary" accounts would be called upon less frequently and the "fringe" accounts the least frequently. Ample "cushion" was left in this schedule for emergency calls and for necessary detail and paper work. This latter provision proved most helpful, for this is an industry of "crash programs," crises and specification changes.

An excellent job of screening of prospects, setting up territorial routings, and internal liaison between our technical representatives and headquarters departments was accomplished by E. J. Musinski, sales manager, and Joe Sermon, assistant sales manager. Many laborious hours of careful detailing are involved in order to use each man most efficiently. Perhaps the most insistent problem is that of opening up and maintaining clear communications between customer, representative and plant on the ticklish matters of specifications, changes, prices and deliveries.

In any business these factors are problems, but in the hectic electronics field they assume major proportions.

One example of our drive to expedite service to the customer was our replacement of our old plant telephone system with a modern system

which permits "conference" conversations among several people—with a minimum of delay or fuss.

Quotas and Communications

To keep each technical representative, termed "regional manager" on course, we broke our annual sales quotas down into territories. These are presented annually in line with an over-all business forecast for the coming year. Each month, each regional manager receives a record of his previous month's sales, sales year-to-date, how this figure relates to quota, product or territorial areas needing attention and any other helpful guidance to improve his effectiveness. We also brought out a salesman's bulletin type of publication called "United Selling Aids," which covered selling hints, product changes, ad reprints, general policy and any other matters with which the salesmen should be familiar. Each man was provided a personally imprinted looseleaf binder for these bulletins. (As an additional communications device we now are planning to hold annual sales meetings to discuss our achievements, objectives, strengths and weaknesses.)

By the end of 1958, our marketing program was moving, but not yet at full speed. Our men had been out in the field several months; Production and Technical were meeting and overcoming an increasing number of problems; space advertising and direct mail were to begin shortly. For a company our size, we had made a full and costly commitment to the integrated marketing concept. The big question was: Would it work?

Same Scene One Year Later

How do you measure success? Sales volume, people employed, units shipped, size of plant, net worth? Whichever way you wish, the passage of a full year's operation of United's integrated marketing plan in the semiconductor industry had witnessed a spectacular success.

At the end of 1959, some 18 months after the inauguration of the program—we had statistics over which we could rejoice. The non-spectrographic part of our business grew from a $150,000 annual rate in 1957 to $300,000 in 1958 and about $550,000 for 1959. This year we expect to push the figure to the $1 million mark.

We have doubled the size of our plant, increased our skilled labor force by more than 100% and added precision machinery which will permit us to open doorways to new sophistication in design, new speed of production, plus a lowering of costs.

Much of this improvement comes from the long range investment necessary to the program. It fell to George Sermon, our president, and Del Hughes, director of administration, to plan financially for these expansions. Without the proper financial arrangements, none of the program could have been realized.

The program is having many beneficial, long range effects. For instance, because many of our semiconductor prospects and customers are companies also engaged in spectroscopic analysis, there has been a "carry over" in this area. Also, research and development departments working on semiconductor problems have inquired concerning the uses of ultra pure graphite for applications not yet brought to light. The circle widens, and the long range benefits multiply.

Perhaps the indications of success that are most heartwarming are those such as our receiving, in one morning, a flock of our reply Western Union telegrams from top people in several of the largest semiconductor plants in the United States . . . or the salesman's report stating that, upon being introduced to a plant manager, he was cordially greeted with, "So you're from the company that sends us aspirins—for free!"

. . . Or, I think all of us at United could agree that the nicest comment was in *Semiconductor Products*' first annual "Industry Report" of materials and machinery used in the semiconductor industry. It read as follows:

"The largest single supplier [of carbon and graphite products] is United Carbon Products Company."

A New Pattern for Selling Steel*

To stop inroads by other materials in its markets, the industry is adopting more aggressive promotion tactics. U.S. Steel's broad program stresses 'selling in depth.'

For 11 years, steel production has averaged 100-million tons a year—and that figure won't change by one percentage point this year or next. That's why you now find steel being merchandised as intensively as toothpaste, cigarettes, or household detergents.

Since 1949, steel has raised its capacity well more than one-half. It has doubled its assets, tripled its debt, doubled the cost of an hour's work—and each of these trends continues today.

Ferocious Competition

Yet never has steel had to compete so hard against other materials producers—and also foreign steelmakers. This is particularly true in mar-

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kets that, before the Korean War, steel practically owned. Three of them—cars, containers, and construction, which jointly account for about 50% of all steel use—are targets of ferocious competitive attack. Of necessity, they now are the focus of steel's calculated cultivation.

Study steel's last 11 years and assess its present competitive position. If you do, you'll be a little startled that the industry wound up as well off as it is in today's competitive jungle.

I. CATCHING UP

During the 1950s, steel's principal competitors—concrete, plastics, and aluminum, and particularly the latter two—came fully of age. This was because the structural material market underwent an unparalleled technological upgrading that demanded different and better physical properties. And the makers of materials that compete with steel can take part of the credit for this development themselves.

But, during most of this period, steel's principal concern was to raise supply to demand. Thus, when the market emphasized progress, steel was concentrating on volume.

New Attitude

Even so, steel's a tougher competitor, today, than ever. It's marketing new products—most at prices or costs equal to or below those they replace. It's selling improved properties. It's opening new applications, promoting its customers' products even in consumer markets.

It's involved, on the one hand, in long-term, supplier-image-building campaigns and, on the other, in spot promotions as topical as a department store sale. It's doing marketing spadework as tedious as rewriting municipal building codes. And yet it recently proved nimble enough to snatch a new market, dependent on light weight, away from a competitor that had a lighter material and a head start.

Steel marketing today, in short, fits the 75-year-old pattern of steel selling that prevailed in 1950 about the way a saddle fits a cow.

II. DOLLARS, NOT TONS

About the time steel production confirmed its breakout from the money-losing levels of November through February, U.S. Steel Corp. launched a marketing series—still not complete—it couldn't possibly have staged three years ago. Thus far, the program has included these gambits:

A stainless-and-alloy-steel-covered railroad hopper car lighter than conventional cars. It was designed to end the cleanliness problems that raise costs with conventional steel-covered hoppers.

A technical seminar for 600 designers calculated to show them the most

extensive plate heat-treating equipment in the world and acquaint them with the availability and usefulness of a broad line of new, higher-strength constructional steels.

A highway hardware exhibit drawing on 10 U.S. Steel divisions for products ranging from concrete aggregate and cement to high-strength steel bolts by way of drainage systems, signs, fencing, guard rails and ropes, reinforcing material, and improved construction equipment.

There have been others and there are more to come. All of them are only the current promotions of a company that has become as aggressive —other than in pricing—as its aluminum competitors have been in promotional selling for some years.

Sales Concept

These flashy new product promotions, though, are just the visible part of U.S. Steel's total marketing program. Broadly, that effort is called "selling in depth," and it's described thus by USS Sales Vice-Pres. Howard J. Mullin:

"In this approach, we commit our entire management to following every avenue we properly can to everyone having influence in the selection of the material for any purpose where steel may serve. If we can create a preference for steel, we follow those same avenues in an effort to create a preference for steel produced by U.S. Steel."

Order Analysis

Basic to all this is a program of "order analysis"—the seller's equivalent of purchasing's "value analysis." One recent example found USS suggesting to an automotive buyer a higher-strength steel that saved the customer $13 per ton. Another example: Better gear steels saved another automotive customer $28 per ton in extra charges. In still another automotive case, a salesman suggested an alternate steel, at a $3-a-ton saving, without leaving the purchasing director's office. When it was applied, it yielded further manufacturing savings.

U.S. Steel, in short, is working dead seriously at selling its customers the means to manufacture a better product at a lower cost. Steel's old tonnage concept of selling is dead.

III. A DIFFERENT INDUSTRY

Sophisticated marketing, as opposed to dividing up tonnage, isn't peculiar to U.S. Steel even though relatively few producers have carried it so far. That it exists at all is proof that fairly early in the '50s, somebody realized that steel consumption was on a plateau and that when the capacity shortages finally were mastered, steel would be competing in a vastly different market. For example:

Eleven years ago, research among carbon steelmakers was quite limited, often perfunctory. Since the mid-50s, though, steel has embraced research with a passion. Already, it has generated products its competition will be hard put to beat and cost savings that have helped steel stop narrowing the price margin between steel and its competition.

While they caught up with demand, steelmen also had the good sense to spend heavily on new and advanced finishing equipment without which they'd be vulnerable today. Continuous annealing for electrolytic tinplate is a major example. Continuous galvanizing and aluminizing lines and other methods of coating or decorating light, flat-rolled product, quench and temper facilities for both pipe and plate, vacuum melting and degassing, and continuous bright annealing are others. It's a long, highly competitive list.

At least as significant as the investment in research and improved products was the investment in modern marketing. Widely, steel is thought to have copied aluminum on this score during the late '50s. The fact is that U.S. Steel organized its market development group in 1938 and, when it then adopted a product label, was the second in steel to do so, following Armco Steel Corp. Early in the '50s, it organized Operation Snowflake, a retail promotion of major appliances. Out of that evolved U.S. Steel's Steelmark, an industry product label now, and the broad marketing program that the corporation had ready when steel had to be sold.

IV. THE BIG ALUMINUM PUSH

To anyone who follows either industry even superficially, aluminum seems far to have outdistanced steel in promotional marketing since, say, 1956. And indeed, in publicizing its program, aluminum certainly has. Even U.S. Steel marketers concede they didn't tell enough people enough about their efforts. By 1958, aluminum already was deep into aggressive publicizing of its intensive promotional marketing campaign.

But, particularly at U.S. Steel, you can get quite an argument as to whether aluminum has gone farther—or as fast—in customer and consumer-oriented marketing of raw materials.

"Before the war," says USS market development director Robert C. Myers, "steel grain bins were unheard of. Shortly after the war, U.S. Steel designed one, got Agriculture Dept. design approval, lined up manufacturers. Since then, this company alone has sold more than 2-million of an industry total of 5-million tons of product in that market—practically one grade, one size, one finish—and we didn't compete with our customers or cut our prices in doing it."

Pricing Policy

This marks a major difference between steel and aluminum and their promotional marketing drives. Quite widely, aluminum has resorted to "commodity pricing," with very low rates set for specific products aimed at specific applications. Widespread and growing at a time when aluminum supply far outstripped demand anyway, this practice has contributed to the price demoralization that has hit aluminum earnings

hard in the last two years. Steel, and most resolutely U.S. Steel, has spurned promotional pricing.

V. NEW PRODUCTS

Meanwhile, all steel producers continue bringing out new products that fill in gaps in their lines, upgrade performance, cut costs. Some of the more important are these:

Double-reduced tinplate, half as heavy as conventional tinplate, that competes directly with aluminum. It was introduced by U.S. Steel, with most tinplate makers quickly following suit.

Automotive package, introduced by Allegheny Ludlum, consisting of bright annealed stainless strip, a stainless designed especially for auto mufflers, and a copper-molybdenum-chrome stainless designed to withstand de-icing compounds.

One-coat enameling steels, pioneered almost in parallel by Inland, Armco, and Bethlehem, that eliminate the ground coat of enamel, making the product less expensive, much more competitive.

High-strength constructional steels.

Columbium-treated steels, which were brought out by National Steel.

Dual Weight drill pipe, a Pittsburgh Steel development, that reduces the weight of a rotary drill string while retaining the strength of conventional drill pipe.

New auto bumper steel, developed by Jones & Laughlin, that cuts manufacturing costs, provides a better bumper.

PART TWO

THE MARKET

FOR CONSUMER GOODS

FOR INDUSTRIAL GOODS

8 Biggest Market Ever Coming Up*

Bumper crop of war babies, now nearing marrying age, will hit the market in full force by mid-'60s. Offsetting this will be a shortage of middle-age consumers.

Back in the 18th century, Alexander Pope, a high priest of the Age of Reason, in one of his more Delphic moments laid down the cardinal principle for 20th Century marketers: The proper study of mankind is a man. That being the case, the charts on this and the following page suggest busy days ahead. Never has there been so much mankind to study.

Just one year after the great decennial game of Count the Noses, the Bureau of the Census has released advance reports on general population characteristics for the U.S. during the 1950s. The over-all line tells business the best news it can receive: More, more, more.

Warning, Too

But the zigs and zags on the individual charts deserve a close look. They warn business that if ever it needed to heed Pope's dictum, now is the time.

In the decade just past, for instance, one important reason for the sudden deflation of the boom in consumer durable goods—appliances, autos, and now housing—becomes apparent when you look at the distinct lag in the 20–34 age groups, key market for such products.

If you look at the second row of charts, the lag repeats itself—10 years older. And the promise for a major upward shove in the group in the 20s won't really materialize till about the middle of the decade.

The forward-looking charts make it clear that there'll be an even greater abundance of mass to market to. But some demographers are asking whether in the years to come there may not be too much mass for an economy that right now is gaining ground, but somewhat sluggishly.

Further, the components of the mass will shift importantly, and these shifts will be felt in the kinds of goods people want.

I. POST-MORTEM

From 1950 to 1960, the U.S. population shot up from 151-million to close to 180-million in the biggest jump recorded. Not since 1910 has

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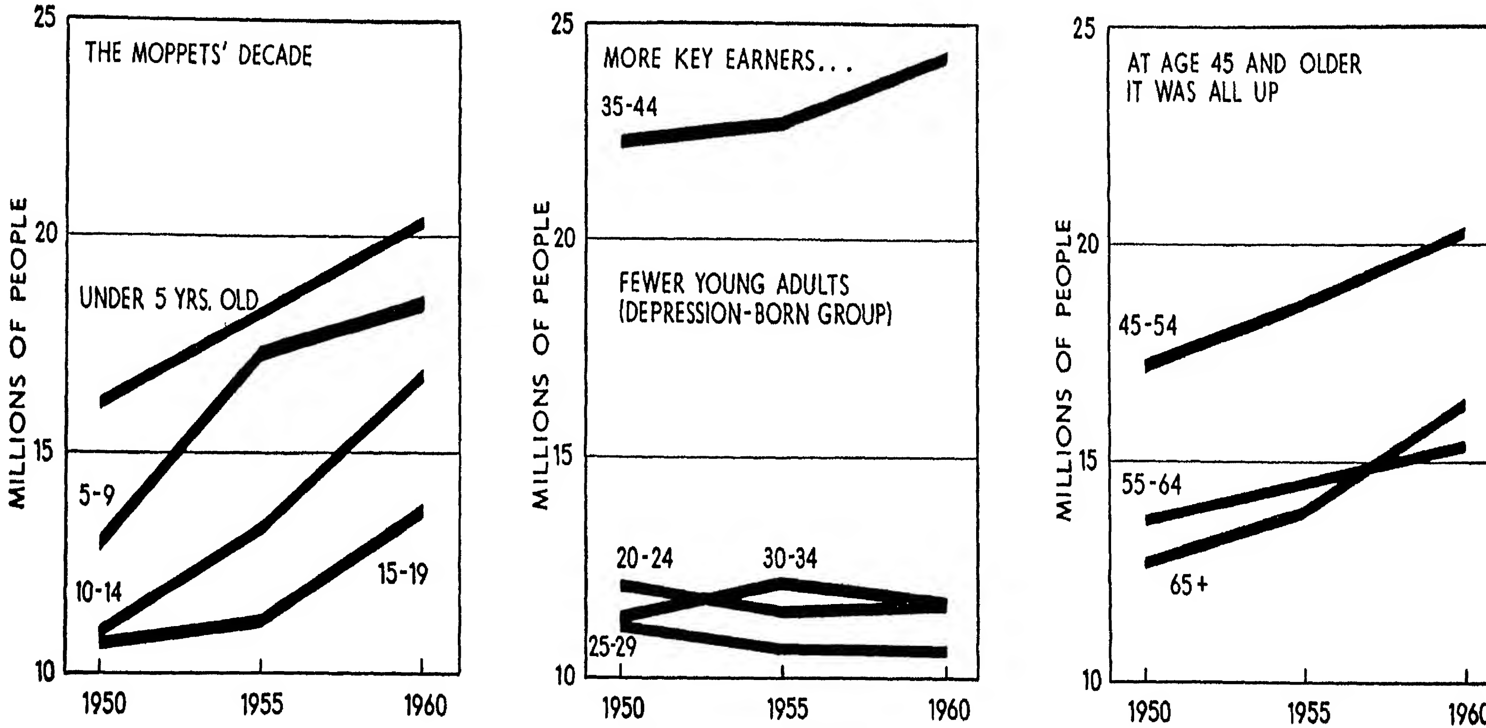
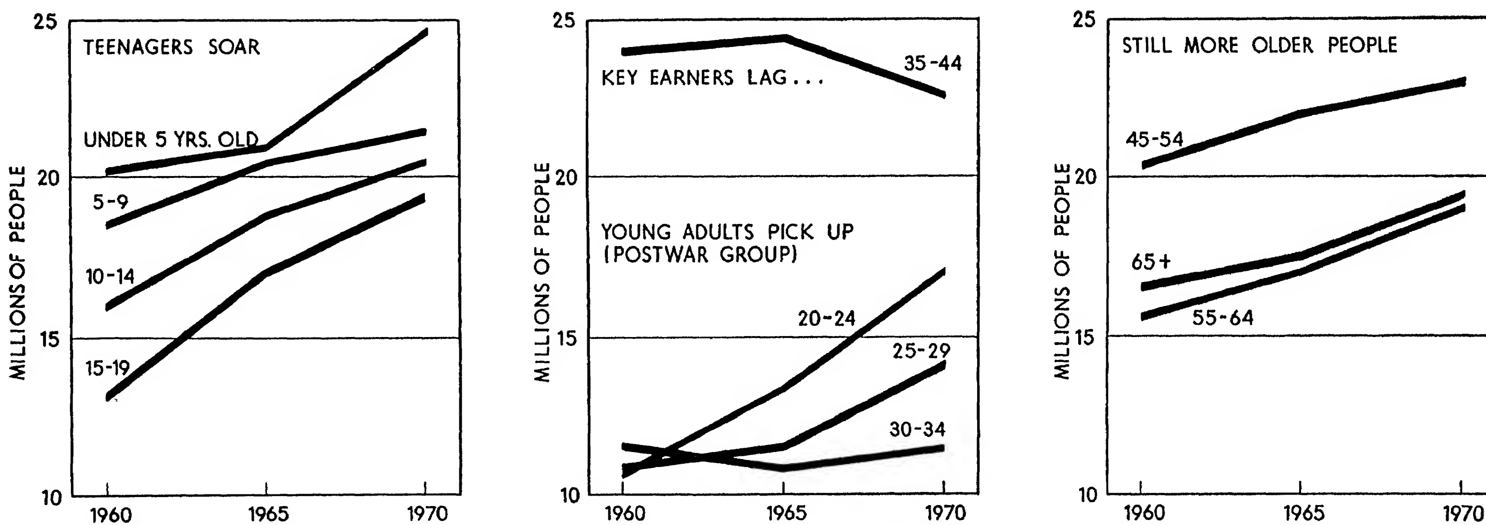
How the Consumer Market Shifted—in the '50s . . .



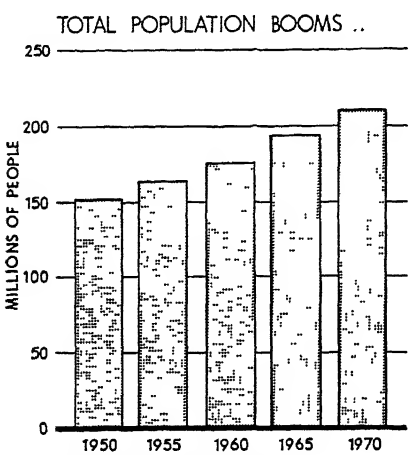
and Where It's Heading—in the '60s

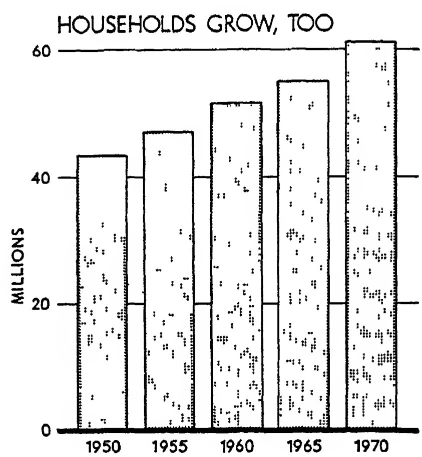


Data. Bureau of the Census.

there been a bigger percentage gain than the 18.5% chalked up in the '50s. The decade produced an astonishing 41-million babies, partly offset by some 16-million deaths. Immigration accounted for a mere 3-million.

The salient development was a continuation of the trend started in the '40s: the near-miraculous growth of the young. Youngsters under 18 numbered a stocky 64-million in 1960, up 36.7%. Biggest percentage gain came in the postwar group, those aged 10 to 14; this rose 50%. Those aged 5 to 9, representing births in the earlier part of the decade, rose a bouncing 40%. Those under five grew less rapidly, but they chalked up a substantial 25% rise.





Data. Bureau of the Census

The older folk—those 65 and over—achieved a 34.7% growth that brought their total up to 16.5-million in 1960. Biggest percentage gain of all was registered by the stout souls 85 and over. They increased nearly 81% to close to 1-million people.

People in the middle fared less well. The birth trough of the Depression years hit those in their 20s—the only age group to show a decline. Those aged 30 to 34 years in 1960 squeaked by with a 3.3% increase. Thus, the Depression trough squeezed the young workers. It also kept the rise in the number of marriages during the decade to a relatively small 11%.

Migration Trends

The incurable restlessness of the American people continued as they wandered away from the farm, away from depressed areas. In fact, 27 states lost population through migration, though only three states wound up with a net loss because of the strong tide of new births. Farm population (by a new definition) now totals only 15.6-million. The revised definition scrapped some 5-million who would have been classified as

farmers in 1950. Even so, the drop was real. The 1950 definition numbered 25-million farmers at that date.

The West continued to zoom, with a 38% increase. Hefty treks from the South—especially among Negroes—and from soft-coal areas hit some states. Startling exception in the South was Florida. Migration brought it 1.5-million people (second only to California's 3.1-million).

In the no-surprise category comes the finding that the big metropolitan areas got bigger (BW—Jul.2'60,p24). About 84% of the country's total growth came in standard metropolitan statistical areas (cities of 50,000 or more, plus their outlying areas); in 1950, they accounted for about 80% of the growth. Again, the outlying areas walked off with the honors. Only Los Angeles among the giants had an increase.

Changing Markets

The Negro population beat out the whites in growth rate, gaining 26.7% to the white gain of 17.5%. In April, 1960, the country had nearly 18.9-million. Their urge to greener pastures brought New York State nearly 500,000 more Negro population. This put that state in the No. 1 spot, supplanting Georgia.

Smaller Households

Getting down to smaller units, a sampling survey indicated there were some 52.6-million households in March, 1960, a jump of 9.5-million over the decade (a change in definition, however, upped the 1960 figure, as did the inclusion of Alaska and Hawaii). One tidbit to intrigue marketers was a whopping 80% jump in "primary" individuals—household heads living alone or with nonrelatives. Partly, again, this growth stemmed from a change of definition. More important, though, was the growing number—and growing prosperity—of older people who are on their own.

Family Data

Not much income information has come yet from the 1960 census itself. A survey in March, 1960, however, shows that about a third of all families had family income of under $4,000; 44.3% fell in the $4,000–$7,999 range, and 22.8% had incomes of $8,000 and over.

The bulk of husband-wife families (some 20-million) had a household head under 45, and, of these, 17-million had one or more children under 18. Partly because this meant stay-at-home mothers, only 22% of these families had incomes of $8,000 or more; among younger families with no children, almost 27% fell in this upper-income category.

Standards of Living

The demand for higher living standards—and the growing ability to buy them—shows up in the quality of the housing. Among the 53-

million occupied units, those with all plumbing facilities accounted for 83% in 1960, against 64.0% in 1950.

II. PREVIEW

Census has made no new projections on the basis of the 1960 count. It is still using those made in late 1958. Business Week has charted the second highest of the four series of projections. The highest assumes a birthrate gain in the next decades. The second assumes a continuation of the birthrate of 1955–57.

Marketers of practically every consumer product for several years now have been counting their 1960 chickens—hatched and unhatched. Nothing—short of deep depression or utter debacle—can stop the upward march.

Clues

Two lines on the charts provide the keys—to both the opportunities and the headaches.

One is the leap forward in the group aged 15–19 between 1960 and 1970, alongside the even steeper climb in the 20–24 bracket. This is the postwar baby boom in full bloom. These are the people who will reach working and marrying age in this decade. Economic productivity and new families combine into a powerful market.

There's a catch, to be sure. It won't be until 1965 or thereabouts that the young people in their 20s really soar.

Further, newly marrieds aren't the prime market for houses. Apartment demand should rise swiftly, but many young couples must wait till they are 25 or older before they buy a house. And the late-20s group isn't coming along as fast as the early-20s group.

Squeeze on Middle

The other significant swing comes from the upping by a decade the age of those born in the Depression trough. During the 1960s, it will be those in their 30s, not those in their 20s, who will be dragging their heels, and the drag will really reach through the early 40s. From management's point of view, this spells a shortage of key earners, pool for middle management.

The subdued level of that 30–44 line, measured against sharp increases at both the younger and the older ends of the scale, emphasizes the squeeze on the middle. "I am struck," says one economist, "by the number of freeloaders coming in." The middle-generation will be put to it to stretch their dollar.

They'll feel plenty of pressure to spend. A huge batch of late teenagers brings demand for big outlays—on clothing, cars, not to mention costly services such as education.

We do know, however, that this market will be there. It has already been born. The biggest gamble in any projection, of course, is: What about new babies?

Birthrate Figures

For the last two decades, families have flown in the face of tradition. By rights more education, more urbanization should spell a birthrate slowdown. Yet U.S. families have been steadily churning out about 4-million babies a year. Since the early 1950s, it has wavered in the vicinity of 25 per 1,000 population. It did drop a bit in 1959 and 1960; last year, according to provisional estimates of the Dept. of Health, Education & Welfare, it was down to 23.6. But the latest Vital Statistics Report, covering February, 1961, points out a turnaround in recent months.

Some argue that the marriage rate, too, may drop—primarily because, with the median age of first marriage at 20.3 for women, 23.6 for men, it can't very well go much lower. Still, a bigger than average group will be reaching marriage age. You might therefore argue that both marriage and birthrate will stabilize at least at the higher fringes of recent rates.

Economy's Effect

The Depression indicated that the state of the economy has something to do with these key population factors. But economics doesn't tell the entire story. For decades, come boom or depression, the birthrate fell. Nobody knows exactly what controls people's ideas about how big a family they want. The point is that people do control family size, as demographer Pascal Whelpton points out—and they can control it up or down. But the experts mostly agree that families are tending to stabilize at between two to four children.

Empty Nests

One recent and important quirk in family formation has been noted, though. Young marrieds are piling in the babies in the early years of marriage as never before. Nowadays, it's quite common for a woman to have borne her entire family by the time she reaches 30.

This has two big results. The woman is at liberty sooner to go back into the labor force—and the figures prove she is doing this. The other is the emergence of what demographers call the empty nest concept. Children born earlier leave home earlier. Their parents can expect 15 years of life together on their own—a magnificent, still well-heeled market for leisure needs.

Teenage Bulge

A major worry among some economists and demographers again stems from that bulge in late teenagers and young 20s to come. People

are a fine market, but a prosperous people are a better. By 1970, we will have 6-million more late teenagers, 6-million more early 20-year-olds than we had in 1960. Add to that the women's penchant for getting back to work, the steady development of automation, and some are worrying: Can we absorb all these manpower resources? Will there be jobs? Says a government business analyst, "I am cautiously optimistic about our rising population. But I would feel better if the signs of growth in the economy were stronger."

Plenty of Targets

No question about it, the soaring sixties will soar, quantitatively, at the least, qualitatively at the best. They will clearly be years of dislocations—markets on the move, congested markets, unevenly balanced markets.

For the individual businessman, it does not promise to be an easy decade, for all the shooting ducks to aim at. But the ducks are there. "We'll be all right if you marketing men do your stuff," concludes an economist.

9 Have Consumers Stopped Wanting?*

The pundits of marketing pessimism are all wrong.

Those economic critics who see American consumers as an oversaturated market have only to look at the facts to see that these consumers still want to shop, and still are willing to run up debts, if necessary, to buy the things that they believe they need.

These are the conclusions of Dr. George Katona, chief of the Economic Behavior Program at the University of Michigan's Survey Research Center, Ann Arbor, and a professor of both psychology and economics. Ten years of data, says Katona, support his contention that marketing has nothing to fear from the future of the American economy, despite what some critics of that economy have said.

In this special report, the editors of Printers' Ink *present a summary of Katona's data and ideas.*

I. The Myth

In books, in magazine articles, in newspapers, a number of economic writers are making some pessimistic predictions about the future of the American economy because of what they think they see in behavior of consumers.

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These writers take for their texts the pace of economic activity during the past few years. They note the short duration of the upswing after the recession of 1958. They note the economic decline of 1960 following that upswing.

They have developed a set of three interlocking arguments to explain the actions of American consumers. For marketing, these "explanations" could have spelled virtual doom if they had been true.

These are the notions that the gloommongers advanced:

"People have run out of things that they can't do without."
"People are overburdened by debt."
"People have elevated the saving of money to their most important goal."

The first notion, the concept of a satiated consumer, is the most ominous for marketing, whether the condition be viewed as temporary or permanent. If viewed as a temporary situation, it means that most

Consumer needs still as strong as a decade ago

"Some people feel that they have most of the things they need around the house—I mean furniture, house furnishings, rugs, refrigerator, stove, TV and things like that; others feel they need many such things or new and better ones. How would you describe your situation?"

OPINION	THE NEEDS THEN AND NOW ALL FAMILIES NOV. 1951	OCT.-NOV. 1960	THE NEEDS IN DETAIL BY INCOME AND FAMILY HEAD INCOME, 1960 UNDER $3,000	$3,000 -4,999	$5,000 -7,499	$7,500 -9,999	$10,000 AND OVER	AGE OF HEAD, 1960 25-34	35-44	45-54	55-64	65 AND OVER
Need many things	10%	11%	10%	13%	14%	13%	7%	14%	17%	11%	8%	2%
Need many things, but won't or can't buy them	6	6	10	6	6	3	6	4	9	7	6	6
Need some things, a few things	18	14	14	12	14	11	19	17	18	13	9	9
Need one thing	6	8	5	9	8	6	12	8	12	7	6	4
Do not need anything; have most things we need	53	54	55	52	51	62	50	48	39	56	64	73
Don't know, depends, not ascertained	7	7	6	8	7	5	6	9	5	6	7	6

Source. Survey Research Center, University of Michigan.

people had bought everything they wanted during the prosperous decade of the '50s. They have no more needs left to be satisfied now.

If this solution is viewed as permanent, the problem is even more serious.

According to this thesis, the American consumer is supposed to have become a fat cat of contentment. His needs have "become less insistent." No longer does he *want*.

The economy, in short, faces continuous suffering under poor demand for new housing, new automobiles and other new durable consumer goods.

A new puritanism, supposedly, is at the root of this slack in demand. People are allegedly tired of borrowing for houses and other durables. They suddenly feel the need "to start living within our means."

And hand in hand with this debt fatigue is supposed to be a sudden reversal of consumer spending habits of the last decade. Thrift, regarded

by some writers as unfashionable or almost un-American in the '50s, is supposed to have taken on new importance in the decade of the '60s.

Are these views correct? Fortunately, this is an area where rhetoric can be checked against the facts. The critics are talking about aspects of consumer behavior, and these are aspects where some accurate data exists.

The Survey Research Center of the University of Michigan has studied consumer wants and their saturation for more than ten years. What do these studies show? Simply this: The notion of a satisfied, debt-ridden, and savings-minded consumer is a myth.

II. The Unfilled Needs

Consumer needs have not been sharply reduced in recent years. Consumer "felt needs" (more meaningful a phrase than simply "needs") are no less significant now than they were ten years ago. The Survey Research Center's continuing study documents this point.

Different techniques, of course, measure needs in different ways. And different approaches probably will produce different results. If a constant technique is used over a long period of time, however, the researcher can obtain a valid measure of change. He may not know how strong the needs are, but he will be able to say whether these needs have increased or decreased in strength.

The constant tool used by the Survey Research Center is a question—this question:

"Some people feel that they have most of the things that they need around the house—I mean furniture, house furnishings, rugs, refrigerator, stove, TV, and things like that; others feel that they need many such things or new and better ones. How would you describe your situation?"

During November 1951 and October–November 1960, this same question was asked of two different representative samples of about 1,500 adults each. In 1951, as shown in the table on this page, about 53 per cent of the adults said they had most or all of the things they needed. In 1960, the percentage was 54. In 1951, 40 per cent indicated they needed many or a few things or just one thing; in 1960, 39 per cent gave the same reply.

The only possible conclusion: Consumer needs have not abated in the past decade. They are as strong as they were before the buying sprees of the '50s showed how strong these needs can be.

The Survey Research Center put the question of needs to a second test. This was the question posed:

"Now about your wishes, are there any special expenditures you would really *like* to make in the next 12 months? Anything you would like to spend money on? For example, a refrigerator, TV, cooking range, washing machine, repairs, improvements or additions to a house, or a car?"

The table on page 67 shows the results of seven consecutive measure-

ments over a three-year period. Some differences can be noted, but they are in direction, not in strength. The percentage of people who said they desired no special expenditures remained fairly constant at about a third of the sample.

There has been a considerable shift in the type of things that people want now as compared with what they wanted a decade ago. Desires for summer houses, boats, travel and various hobby expenditures have increased in frequency in the past ten years. At the same time, however, desires for automobiles have not diminished in frequency, partially because more people want a second car.

Even with this shift, however, this point remains for marketing: Consumer desires have not yet been satisfied. Consumers may want different

How consumer wants have shifted direction

"Now about your wishes, are there any special expenditures you would really like to make in the next 12 months? Anything you would like to spend money on? For example, a refrigerator, TV, cooking range, washing machine, repairs, improvements or additions to the house, or a car?"

WOULD LIKE TO SPEND ON ...	NOV.-DEC. 1957	MAY-JUNE 1958	OCT. 1958	MAY-JUNE 1959	OCT.-NOV. 1959	MAY 1960	OCT.-NOV. 1960
Durable goods	72%	53%	46%	53%	60%	68%	65%
House furnishings	4	4	4	3	5	5	5
Trips, vacation	4	3	3	4	4	5	6
House or cottage for own use	10	8	7	7	9	8	6
Luxuries, hobbies	3	3	4	3	3	4	3
Other, "many things"	4	3	3	3	5	3	5
Investments, savings	3	2	2	2	2	2	2
Not ascertained	*	*	*	2	1	1	1
No special expenditures desired	30	31	33	32	28	30	31

* Less than half of one per cent.

Source: Survey Research Center, University of Michigan.

things, but they still have wants that must be satisfied. It is wrong to say consumer wants "have become less insistent."

III. Installment Debt

It is equally wrong to assume that consumers suddenly have rebelled against installment debt. Over the last five years, the total installment debt has remained constant, at about 11 per cent of personal income.

The Survey of Consumer Finances, conducted by the Survey Research Center, shows that in 1960:

Eighteen per cent of all spending units were making monthly installment payments amounting to less than ten per cent of their disposable income.

Another 18 per cent of the spending units were making payments amounting to ten to 19 per cent of their disposable income.

About 12 per cent were making payments equal to 20 per cent or more of disposable income.

These proportions of spending units have remained relatively constant over the years.

Still other evidence comes from the attitudinal data collected by the Survey Research Center. More and more people each year are coming to the conclusion that it is a good idea to buy things on the installment plan, the surveys show.

In 1954, for example, about 50 per cent of the respondents believed installment buying to be a good idea. This percentage climbed to 55 in 1957; and in 1960, fully 60 per cent of the sample approved of buying on the installment plan.

Younger families, and those families that see brighter days ahead, are the staunchest advocates of pay-as-you-use. Those who disapprove of installment debt are likely to be older people or the wealthy. Therefore, since the young married group will be the fastest growing population segment over the next decade, installment buying is likely to take on even more popularity among the nation as a whole than it enjoys today.

Consumer attitudes toward debt have not changed

"Suppose you'd like to make some further large purchases; would it be a hardship for you to make larger monthly payments than you make now or would it be easy?"

	ALL DEBTORS		BY INCOME							
			UNDER $3,000		$3,000-4,999		$5,000-7,499		$7,500 AND OVER	
TO MAKE LARGER MONTHLY PAYMENTS WOULD BE . . .	NOV. 1959	OCT.-NOV. 1960	NOV. 1959	OCT.-NOV. 1960	NOV. 1959	OCT.-NOV. 1960	NOV. 1959	OCT.-NOV. 1960	NOV. 1959	OCT.-NOV. 1960
Easy	22%	21%	4%	7%	21%	13%	20%	22%	42%	45%
Pro-con, don't know	1	1	1	*	1	1	1	1	4	1
Hard	73	75	91	91	74	81	75	74	49	52
Not ascertained	4	3	4	2	4	5	4	3	5	1

* Less than half of one per cent.

Source Survey Research Center, University of Michigan.

The notion about installment debt is further disproved by still another piece of evidence. In this test, consumers were asked:

"Suppose you'd like to make some further large purchases; would it be a hardship for you to make larger monthly payments than you make now or would it be easy?"

The respondents in late 1959 gave almost the same response as those interviewed at the close of 1960, as indicated in the above table. About three-quarters of the total sample bridled at the thought of still another payment. But income, not size of their current debt, was most responsible for hesitation.

About 40 per cent of respondents earning more than $7,500 a year thought that it would be "easy" for them to take on additional installment debts. These people argued that they had not yet reached their debt limit.

Thus, a substantial reservoir still exists for growth in installment buying. And only willingness to buy—not an imagined protest against installment plans—controls the future growth of installment debt.

IV. Savings

The desire to save (in the sense of accumulating liquid reserves) is nothing new. Savings is as much a need as a need for a new automobile

or a new house. This was the situation in the past. This is the situation now. There has been no latter-day elevation of thrift as an objective.

Repeated studies carried out in the '50s showed that the majority of American families were dissatisfied with the amount of their liquid reserves. This was true of all income groups, even families with fairly substantial cash assets. These people regarded the acquisition of both goods and money reserves as positive goals.

Research also showed that during the '50s people were not able to succeed in their savings intentions. Each year far fewer people saved than had planned to save.

These conditions remain true today, in much the same degree as in the '50s. There is no indication that people's underlying attitudes towards savings and borrowing have undergone any recent radical change. People still want to save, but fewer actually will save. And most still will continue to bemoan the low state of their bank balance.

V. The Conclusion

The dire predictions for marketing in the '60s thus are unfounded. The American consumer is not satiated. He has not suddenly become disenchanted with the installment buying plan. He has not recently elevated savings to be his principal goal in life.

By and large, the American consumer still has unfilled needs and still is willing to spend or borrow to fill them.

To be sure, there are rich consumers who now are well stocked-up. But their number and their marketing significance have not increased in recent years. And there are also, as there always will be, low-income groups who need a great many things but are unable to buy them.

These, however, are only the fringes of the potential market for most manufacturers of consumer goods. The greatest market potential lies with the families in the middle- and upper middle income groups, that 36 per cent of the families with incomes of between $6,000 and $15,000 a year. These are the families who are doing most of the discretionary spending and these are the families who still express very definite needs.

These families have made rapid strides since World War II. But their growth has been toward comfort and fun rather than extravagance and splurging. Their current standard of living, though higher than elsewhere in the world, still is not perceived as high enough. The gratification of their past desires very often has led to the creation of new desires on a still higher plane. This rise in aspiration, of course, can be arrested. Failure, frustration and spreading pessimism can restrict material growth people envision for themselves. Recession, even depression, can be the outcome.

But conversely, confidence and optimism can create new wants and desires. In other words, the economy can spiral upwards with the force of consumer spending induced by consumer optimism.

This buoyant attitude, regrettably, has been missing since 1957. First

came the recession of 1958. There was a recovery, but it was relatively short-lived. Then came the downturn in 1960. Consumers became pessimistic about their immediate future, a fact which led to a restriction of consumption rate.

This pessimism, however, has been limited in recent years. People have been venting their despair against present-day prices and present-day quality. They still express long-range confidence in their own financial outlook and the outlook for the American economy. And this long-term confidence, combined with satisfactory income trends for most consumers, justifies the belief that willingness to buy will improve in the not-too-distant future.

Periods of economic decline probably will continue to plague American business; but those critics who see a lasting reduction in consumer strivings are wrong. The American people are not satiated.

In people's wanting more and better things lies one of the most powerful incentives to work hard, thereby stimulating production, efficiency and economy growth.

Fortunately, this incentive continues strong in the United States.

10 "Mass Class" Market: Who Are Its Influentials?*

Who belongs to the "mass class" market and how should marketing men approach it?

A recent study by U.S. News & World Report *analyzes the rapidly expanding upper-income brackets to determine which economic level today accounts for the greatest number of big-ticket purchases—and what kind of families occupy that level.*

Who are the buyers of big-ticket merchandise?

The answer is obvious: the people with the most money, or, the rapidly-expanding "mass class" market. This group, spurred by the growing population and steadily rising family income, has produced many new opportunities for the big-ticket marketer. Despite the obvious, some advertisers still tend to overlook these opportunities.

Income has risen spectacularly in the U.S. since 1945. At that time, one-third of the nation's families earned less than $2,000 a year. Today,

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only 14 per cent do. At the same time, the $5,000-or-more families have grown from 14 to 51 per cent of the population. This is the mass class market.

Big-ticket merchandise is still overwhelmingly the domain of the upper-income families. For example:

Families with incomes of $5,000 or more per year own 82 per cent of all air conditioners.

Families earning $7,500 or more a year own 70 per cent of all dishwashers.

$10,000-and-over families who use planes, trains or ships spent 69 per cent of all vacation money in the past year.

There are only two exceptions to this rule—TV sets and second-hand cars. TV sets are to be found in 88 per cent of all American homes. Seventy-four per cent of all families own cars, although 86 per cent of the new-car purchases in the last year were confined to the $5,000-and-over families.

A recent study conducted by Benson & Benson for *U.S. News & World Report* magazine defines just how great the influence of the upper-income brackets is in the big-ticket merchandise market. *U.S. News & World Report* surveyed the entire U.S. car-owning population, which includes 98.2 per cent of all U.S. families earning $5,000 and over a year. (The names were selected by R. L. Polk & Co. from its lists of passenger-car registrations.)

For marketing men, this study shows three things of vital importance:

First, upper-income families are still overwhelmingly the most important purchasers of big-ticket merchandise. This fact seems obvious, but many marketing men have lost sight of it in the years since World War II in their pursuit of the chimerical mass market. In other words, some marketing men have downgraded the importance of the top rungs of the economic ladder in their efforts to influence the whole ladder.

Second, high income is closely linked to high education. Lowest-common-denominator advertising is apt to pass these groups by.

Third, the study's detailed description of high-income groups gives valuable information to marketing men about how to influence these groups.

I. The Big Spenders

When *U.S. News & World Report* began its study, there were over 54-million families in the U.S. Fifty-one per cent of them earned $5,000 or more per year. This $5,000-and-over group earns 75 per cent of all U.S. family income; it owns 85 per cent of all dishwashers, 86 per cent of all movie cameras, 85 per cent of all wall-to-wall carpeting, and includes 90 per cent of all families who use Scotch or bourbon whiskey.

The average family income of this $5,000-and-over group is $10,248 (average of all families is $6,220), and the median is $7,571 (median of all families is $5,083).

Sixty-eight per cent of the $5,000-and-over families have children (an

average of 2.4), 87.7 per cent live in houses rather than apartments, and 77.9 per cent own their homes (as against 58 per cent of all families).

Educationally, 88.3 per cent of the $5,000-and-over families have one or more members who graduated from high school, 57.2 per cent have someone who had some college education, and 33 per cent have one or more college graduates.

Average age of the family head is 41.8 years, and the median is 40.5. In almost one out of four cases (23.1 per cent) he is a college graduate. Forty-four per cent of the family heads had some college, and 71.5 per cent are high school graduates.

The next group—earning $7,500 or more per year—makes up only 25 per cent of all families, yet they own 70 per cent of all dishwashers, 52 per cent of all movie cameras, 54 per cent of all wall-to-wall carpeting. They represent 65 per cent of all Scotch users, 59 per cent of all families using bourbon.

The $7,500-and-over family has an average income of $14,188 and a median of $10,698. Somewhat fewer in this group (62.1 per cent) have children, with an average of 2.3 per family; 88.9 per cent live in houses, and 84.1 per cent own their homes.

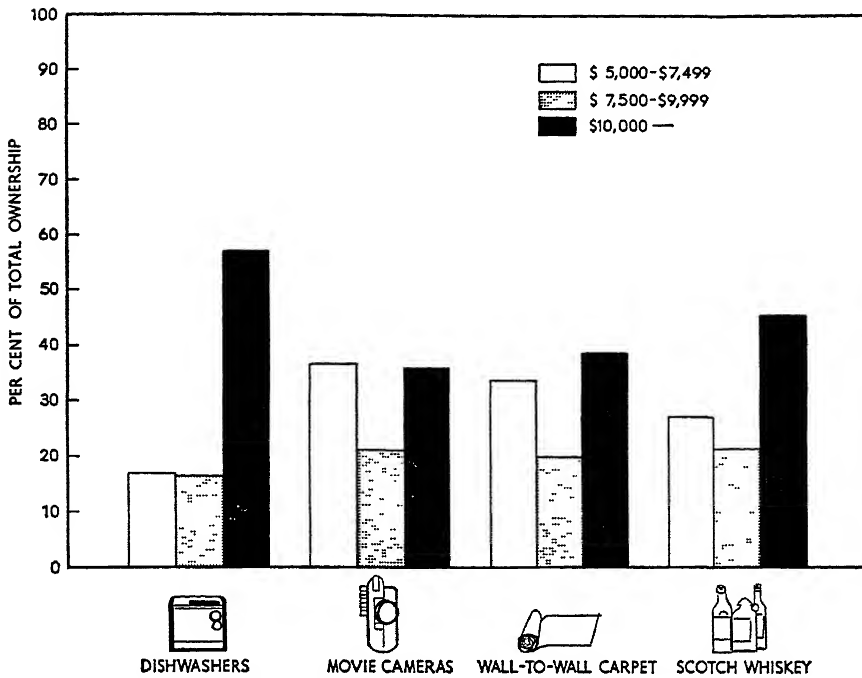
More than nine out of ten (93.7 per cent) have at least one member who graduated from high school, 67.5 per cent have a member who went to college, and 44.3 per cent have one or more college graduates. The family head himself, in almost one out of three cases (31.2 per cent) is a college graduate; in 53.9 per cent of the families he has some college training, and in 78.8 per cent he is a high school graduate.

The average age of the $7,500-and-over family head is 43.7; the median, 41.8.

There are about 6,800,000 families in the top category—those with income of $10,000 or more. They own 55 per cent of all dishwashers, 33 per cent of all movie cameras, 36 per cent of all wall-to-wall carpeting. This top group includes 45 per cent of all Scotch users and 37 per cent of all bourbon users (as well as 38 per cent of all families using gin).

The average income for this group is $18,174, the median $12,428. Only 58.1 per cent of the families have children (average 2.3 each), 87.7 per cent live in houses, and 85.8 per cent own their homes. (There has been a trend in some metropolitan areas for older, childless families to move from suburban houses back into city apartments).

Educational level is the highest of all income groups; 52.5 per cent of these families have at least one college graduate, 73.8 per cent have someone who attended college, and 95.1 have one or more high school graduates. Among the $10,000 family heads, 37.3 per cent graduated from college, 59 per cent attended college, and 83.2 per cent are high school graduates. Older than the heads of lower-income families, the head of the $10,000-or-more family is still only 44.8 years, on the average; the median is 43.9.



Source: *U.S. News & World Report*

The luxury market and upper-income families: When the so-called "mass Class" market is broken into three income groups, it becomes sharply apparent that people at the top of the income scale are as influential as ever. The $10,000-and-over group represents 6,800,000 U.S. families, the $7,500-to-$9,999 group contains 13,000,000 families, the $5,000-to-$7,499 group has 28,000,000 families. But the much smaller top-income group usually accounts for the lion's share of total U.S. luxury purchases. This is most dramatically illustrated in the case of dishwashers and Scotch whiskey.

II. Behind the Figures

From these detailed statistics, several significant trends emerge:

Higher income goes with higher education. The over-$5,000 category has a higher educational level than the national average. Of all family heads in this group, 21.3 are college graduates, compared to the national figure of 14 per cent, as estimated by the Federal Reserve Board. At the $10,000 level, the proportion of college-graduate family heads is 37.3 per cent.

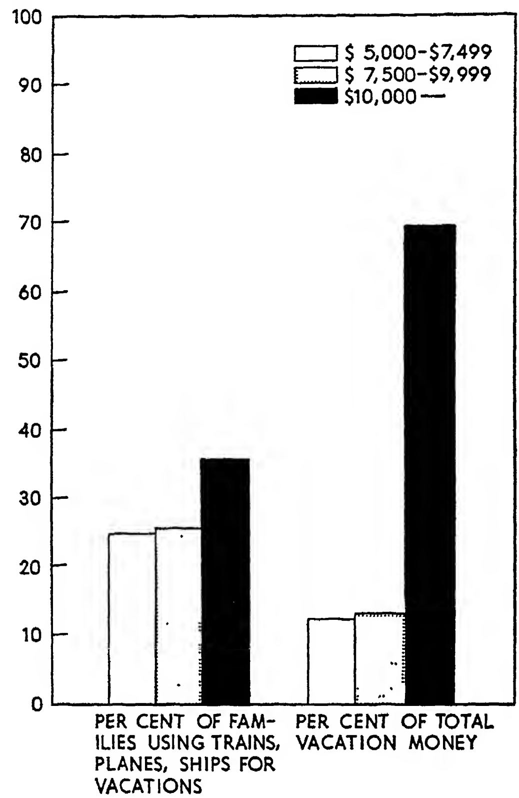
Home ownership in the upper-income families is greater than the national average. Almost 80 per cent of the over-$5,000 families own their homes, against the national figure of 58 per cent. Home ownership rises to 85.8 per cent at the $10,000 income level.

The head of the $5,000-or-more family is surprisingly young. The average age is 41.8, the median 40.5. Those figures rise respectively to a 44.8 average and 43.9 median at the over-$10,000 level.

The proportion of families with children drops as income rises. Of all the $5,000-and-over families, 68 per cent have children. At the $10,000-and-over level, only 58.1 per cent have children. The number of children per family is the same (2.3) in all three upper income groups.

As might be expected, the $5,000-and-over families have large personal holdings, generally increasing as the family moves up the income ladder. At the $5,000 level, 84.6 per cent of all the families have checking accounts; 71.9 per cent have savings accounts; 50.1 per cent own bonds. Insurance is common: 90.8 have fire insurance; 90.5, regular life; 82.6 accident; 79.2, personal liability insurance.

Further up the income ladder, 95.1 per cent of the $10,000-and-over families have checking accounts; 82.3, savings accounts; 65.3 own bonds.



Big spending = big income. This correlation is sharpest in the vacation travel market, where families earning $5,000 and over account for 94% of the money spent, and families that earn over $10,000 account for 69%.

As for insurance, 92.5 have regular life; 97.4, fire; 90.2, accident; 88.7, personal liability.

III. Who Buys What

How do these three top income groups affect specific product and service markets? *U.S. News & World Report* examined more than a dozen product and service lines to find the answers.

The importance of income in big-ticket buying is most dramatically underlined by the new-car market. *U.S. News & World Report* found

that of the 5,500,000 cars sold during the 12 months prior to its survey, 86 per cent, or 4,800,000 new cars, were bought by families with incomes of $5,000 or more. Only 14 per cent—700,000 cars—were bought by under-$5,000 families.

These buyers covered all price ranges. They bought about 80 per cent of all compact cars as well as the major share of higher-priced cars. (On this point, a recent survey by the *Cleveland Plain Dealer* found that the top two economic groups, accounting for 50 per cent of the people in Cleveland, bought seven out of ten new cars.)

Slightly over half of new-car buyers of the past 12 months (51 per cent) are two-car families, according to *U.S. News & World Report.* Their average holdings (savings, stock, etc.) are reckoned at $26,000, about 12 times the national average.

About four out of five new-car buyers own their homes, two-thirds have children. The average family head is 42, and the median age is close to that figure. Family heads are well-educated. One in four graduated from college and 75 per cent graduated from high school.

Another big-ticket market, home air-conditioners, was built by the upper-income groups. Air-conditioner volume, measured at little more than $300-million in 1950, was calculated at more than one-billion dollars in 1959. At the time of the *USN&WR* study, there were an estimated 7,600,000 air conditioners in use—82 per cent of them owned by families in the $5,000-or-more income group (34 per cent owned by the $10,000-and-over families). The average income of families owning air conditioners was calculated at $11,508 and the median at $7,750.

Almost nine out of ten of these families (87 per cent) live in houses and 89 per cent own their homes. About 61 per cent have children—an average of two. Among the heads of families owning air conditioners, 55 per cent are under 45 years old, 82 per cent under 55, 27 per cent are college graduates and 66 per cent work in managerial or professional jobs.

An estimated 1,742,000 families—92 per cent of them in the $5,000-and-over group—bought new air conditioners during the 12 months prior to the survey. The $10,000-and-above category accounted for 43 per cent of buyers.

In the service markets, the buying power of the upper half shows just as strongly, if not more so. As an example, the study looked into the vacation travel market—those families who used a train, plane or ship to take a vacation of at least three days during the 12 months preceding the study.

Study projections indicate that 7,500,000 families used one of these three public carriers to take vacation trips, and spent more than $6,016,730,000 on their vacations.

The $5,000-and-over group accounted for 79 per cent of families using planes, trains, or ships for a vacation. They made 85 per cent of all these

vacation trips and accounted for 94 per cent of the money spent on vacations.

The $7,500-and-over group provided 55 per cent of all vacationing families, made 65 per cent of the trips, and spent 82 per cent of vacation money.

The $10,000-and-over group, 13 per cent of all families, were proportionately the most active. They accounted for 35 per cent of all vacationing families, made 46 per cent of all vacation trips, and spent a large 69 per cent of all vacation money.

Age is a major factor in the vacation travel market, too—but with special differences. The average age of the heads of families using plane, train or ship on vacation was 47. Seventy per cent of them are in managerial or professional positions and 36 per cent are college graduates.

There are other points of difference between the vacation-traveling families and the typical $5,000-and-over income family. Fewer travelers (61 per cent) have children. And fewer live in, or own, houses. Eighty per cent (as against the group figure of 87.7) live in houses, and 75 per cent (against the over-$5,000 family figure of 77.9) own them.

The closest correlation between big spending and big income shows up in this vacation-travel market. All the families using plane, train or ship for vacation trips during the study period spent an estimated average of $798 per family. The average rose sharply with income level. The family with income between $10,000 and $14,999 spent an average of $1,150, and the average shot up to $3,287 for the $20,000-and-over family.

IV. What Makes a Market

What does this mass of statistics mean in down-to-earth marketing terms? Obviously there are non-economic factors—the creation of needs and wants—that strongly influence buying decisions. But just as obviously, a buying decision is pointless without money to support it.

This does not negate or minimize the psychological factor. On the contrary, dealing with a more highly educated market, psychological factors become even more important, and require even more intelligent planning. Motivation is a critical element in the profitable movement of goods and services. But, as the *U.S. News & World Report* study underscores by implication, there is little point in creating needs and wants where there is no buying power to satisfy them.

Motivation urges people to buy, but it takes money to make a market.

*

How the Old Age Market Looks*

Today, many retailers look the other way, but there are signs of a new pitch aimed at oldsters and many fields, such as housing, travel, light sports, are already cashing in.

The nation's older citizens, now making their influence strongly felt as a political force, represent also a sizable and growing market that already numbers 16-million-odd potential customers in the over-65 group. And there are signs that U.S. business, which has largely thought of the multiplying ranks of the elderly as merely "more of the same" in market terms, is beginning to recognize the market possibilities in the group's special needs, and to make a pitch for it.

Yet the oldsters still have a long way to go before their dollars will count in the marketplace as their votes do on election day—as a Seattle merchant, summing up a bit bluntly today's prevailing attitude of retailers, emphasizes: "The way the older population is growing, I suppose we'll want to do something for it someday, but we're not doing anything now."

Hurdles

A basic deterrent, of course, is that much of this group has only a minimum to spend. Some 80% of it has money income of under $2,000; only about 5% have over $5,000.

But marketers must take other hazards in their stride, too.

"Older people do the same things younger people do. They golf, they garden, they play bridge. You can't say, 'This golf set is for older people, or these bridge cards,'" comments a Portland (Ore.) retailer. Except for health needs, the elderly want the same things their younger brothers want.

Maybe the toughest hazard of all is psychological. Says Lipman Wolfe & Co., Portland department store, "The quickest way I can think of to make sure a sale would flop would be to advertise, 'This dress is for ladies 65 and over.'" No one wants to be pegged as an ancient. "You can't merchandise to this group," says Lane Bryant, New York specialty store.

For different reasons, manufacturers feel much the same way. Like retailers, they are anxious to sell to all age groups—and too close an identification of their wares with the older group might prove the kiss of death for younger customers.

I. SIGNS OF CHANGE

Yet signs of change are evident.

Even the Seattle merchant who is doing nothing about the group now concedes he may have to someday. Most retailers recognize the sheer numerical heft of the market. Detroit businessmen, for example, detect some stirrings in the air.

Barriers to good merchandising will give way as the experts learn more about the psychology of the oldsters, they believe.

Here and there, a retailer is already doing a job. "We have become keenly aware of the importance of keeping pace with the unprecedented growth in the percentage of persons now at or near 65," says Fred Meyer, head of a big Northwestern drug, variety, and food chain. "We have made this a subject of extreme study and experimentation, and have changed much in our operation to meet what we consider a coming revolution in retail trade. . . . There's a wide difference between the demands of the new generation and the old, and unless the store caters to the whims of both, it's bound to lose trade."

Spurs

Two things—besides numerical growth—are abetting the changes.

First, short of cash though the bulk of the group is, it has more money than it used to have. As private pension plans expand, more personnel are retiring with a healthy nest egg. One company pays out to retirees from its thrift fund—to which employees contribute—amounts ranging from $18,000 to "10 or 20 times that"—in addition to the pension.

Second, better economic times mean earlier retirement in many cases. The "older" population is growing younger. It still has the urge to enjoy activity. Thus, it has more money. It has more energy. And it has what it always had only more so: time.

Marketers in some fields are already cashing in.

II. HOUSING

Housing ranks tops in most cities. True, a good deal of the housing activity is still sponsored by government, church, or union. But private business is getting into the act, too. Last week, FHA issued regulations for a new program that could generate up to 150,000 or 200,000 apartment starts a year. The new program, which allows private builders to make a profit on rental apartments for elderly tenants, was authorized

last September in the 1959 housing law. Up till then, only non-profit organization could go into this.

Florida to Detroit

Housing is Florida's most important industry for the aged. The Mackle brothers of General Development Corp. rate as the No. 1 builder for the oldsters in the country.

In Arizona, Youngtown, a development some 16 miles from Phoenix, has about 1,000 houses, priced at $8,200 and up. Nearby, a brand-new development, Del Webb's Sun City, catering to customers of 50 and over, sold over 200 homes the first few days after opening on Jan. 1. Prices: from $8,500 to $11,300.

Detroit's Holtzman & Silverman, residential builders, went the whole hog on a development 20 miles west of the city, with homes priced just under $11,000. The concern admits, though, that sales have been slow. Another company, C. W. Babcock & Sons, specializes in co-ops for the elderly. Last year it sold 140 such units, twice the number it sold the year before. Initial payment calls for $10,500 for a 2-room setup, with $30 a month covering maintenance except electricity.

Life-Leasing

The life-lease contract is growing in popularity. This is the deal where the customer pays a sum—it ranges from $5,000 to perhaps $30,000 or more, depending on the amount of luxury and service involved—plus monthly payments.

Coverage varies; in many places, these payments provide food and shelter for the rest of the consumers' lives. Some places—Pacific Homes, for one, nonprofit operator in the Southwest of several such developments for the Methodist Church—include medical care.

Hotels to Trailer

In Florida, Charles Lavin has specialized in reconverting old hotels—and Detroit is going that trail, too. Miami and Seattle see a potential in plush hotels for retirees.

Trailers are growing as a solution to the housing problem. The National Assn. of Mobile Home Manufacturers estimates that 10% of those living in or owning trailers are retired—out of 3.4-million trailers in use in the country. A swish trailer park, Sunnyvale, near San Francisco draws a sizable chunk of its market from the over-60 group, by the simple expedient of allowing no children or pets.

What They Want

Builders—both public and private—have clearer ideas of what this market wants. Here, as in other lines, the Mackles say, the oldsters resent

being categorized. They liked it fine when younger people began to flock to their Pompano Highlands development, designed especially for the elderly.

Transportation is a must, all agree. Arizona's Youngtown has a special weekly bus that takes residents to downtown Phoenix for a day's outing. A Denver project too far from bus service did not pan out.

If transportation is sketchy, then the community must offer all facilities at its doorstep. Ideally, it should, anyway. Webb's Sun City is one of several that feature a shopping center, swimming pool, golf, and motels.

III. TIME ON THEIR HANDS

With more people retiring before 65, demand for jobs is strong. The Mackles hope to create an industrial park at Port Charlotte, to provide employment. In St. Petersburg, many take hotel jobs—Lavin employs residents of his hotel projects—or they run taxis. If they have money, they buy real estate, or an orange grove. Companies such as Hotpoint train their older employees on maintenance of the Hotpoint appliances so that, come the day, they will be able to find work.

But a tiny fraction of the retired actually find work. Products and services catering to the leisure market can find rich diggings in this field.

Travel

Thomas Cook & Son, big travel agency, reports that its business with older people has more than doubled since the end of World War II, while its over-all business has grown some 60%.

Cruises—long, leisurely, comfortable—have a strong appeal. The longer the cruise, the higher the average age, the Grace Line reports. Figures on passports issues and renewed during the July–September period in 1959 (the latest available) show that almost 19% went to holders aged 60 and over, against 13% the year before. While the actual numbers are small, there was a startling 93% increase in passport holders over 76 in that period.

Sports, Outdoor and In

For those to whom such living comes too high, fishing seems to rate tops in communities well supplied with oldsters. Gardening, boating, golf—and especially shuffleboard—all have strong adherents in Florida. In St. Petersburg, classes in boating flourish. B. E. Webb, of Webb's City, big St. Petersburg retailer, estimates his "Plant City" garden and shrub department sells some $1-million a year.

Another major Florida sport appears to be playing the stock market. "I live a half a mile from the bay and a half a mile from my broker," re-

ports one contented retiree. St. Petersburg has more than 20 brokers' offices—a record, it thinks, for a city its size.

IV. PRODUCTS

Detroit has a distinct, but undocumented, hunch that its compact cars appeal to the older driver. Handrails for tubs are a best seller in that city. An Atlanta concern is successfully marketing Fayd, a product that claims to eradicate the brown spots that come with age. Cosmeticians and beauty parlors (St. Petersburg is rich in these) also flourish; hair colorists find the elderly particularly rewarding—though youngsters are deep in this business, too.

Health products—drugs, and the like—of course find a warm reception. Webb's in St. Petersburg says vitamins are its best seller; it advertises them at a saving. Sonotone Corp. is test-marketing two vitamin formulas, one for persons over 50, one for younger people. Miami has 13 health food stores.

Insurance companies are beginning to cash in on the demand for hospitalization policies that are open-end on age and physical condition.

V. THE SALES PITCH

When it comes to apparel, retailers all but give up. You simply sell on an individual basis, they say. What you can do, points out Lane Bryant, is offer more of the half-sizes that older women are apt to wear—and design them with more style, more color. Webb's notes a run on sport shirts and caps. Oldsters relax in their attire when they stop working, it believes. Most stores feel older women want whatever is the mode. "She'll wear shorts, by golly, if 'they' are wearing shorts," says a Lane Bryant spokesman.

A few big stores feature events that draw older customers—without making a big point of it. Rich's in Atlanta entertains customers over 80 on its annual birthday party. The Emporium in San Francisco continues to let the senior citizens hold their hobby show there. But for direct promotion, a gray-haired model in a fashion show or an older couple in a cruise ad about does it.

Yet the Seattle pharmacy that has studied this market closely feels it pays to stock for the older people. They want long-wearing clothes; they want old standbys in the drug lines; they don't go for faddy foods, Fred Meyer reports. Further, grandmother is a pushover for the grandchildren. She'll spend to the utmost on toys for the younger generation. And Meyer has stocked his stores accordingly.

Meyer plays up heavily courtesy from his employees to the older folks, to the point of giving them physical assistance if it's required. "Many of

them live in rooms or an apartment or in the old home by themselves," he says. "A visit to the neighboring store is a lark—and it is our policy to try in every way to make it just that."

12 What's Happening in the Family Fun Market?*

New consumer status symbols, a taste for high living, and home-centered attitudes are the roots of the home entertainment boom. They nourish a host of growing markets, offer bountiful harvests to marketers who plan carefully to avoid some pitfalls.

Someone once called the family the cultural foundation of the western world; today in the U.S. it is becoming a foundation for a host of new and fast-growing markets.

Status symbol shifts since the end of World War II are major factors in this market phenomenon. The second car has faded as an image of wealth, and the sign that Mr. Average American is keeping up with the Joneses is now the blue patch of swimming pool in his backyard. The home itself is high on the list of prestige symbols, and Americans spend plenty of time and money enjoying it with their families.

The taste for casual living, party-time fun, and the better things in life is not only building new markets, but whole new industries as well. Not only does the ideal home's backyard sport a swimming pool, it also has a barbecue and attractive lounging chairs, tables and umbrellas. The den or living room blares forth the latest record releases from a high fidelity phonograph; the larder is well stocked with liquor, gourmet foods and party delicacies, and the recreation room holds games for the entire family.

These basic appointments in the modern family's life have sparked development of a wide number of fringe needs waiting to be satisfied by aggressive marketers. Old products that can be made to fit new uses—such as aluminum foil wrap for the barbecue pit—are already sharing in the boom along with newly developed products brought out especially for home entertainment needs. But like any other markets, these have their stumbling blocks, and some of the country's biggest and most successful companies have already stubbed their toes on them.

Pitfalls notwithstanding, billions of dollars are spent each year in the

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family fun market, and the volume is growing. Here's what has been happening with swimming pools, barbecues, gourmet foods, high fidelity, and some of the other industries serving it.

Big Splash in American Backyards

Probably the most dramatic growth of the backyard segment of the home entertainment market is in swimming pools. Today there are about 211,800 residential pools in the U.S.—about 85 times the 2,500 existing as of January 1, 1948.

Once thought of as an item within the purchasing power of only the highest incomes, the private pool has come down in price as the consumer's disposable dollars have increased. The average price of a residential pool last year was $3,800, well within the range of millions of home owners. Bank loans have helped to finance many, and for most new-home buyers, the few extra dollars added each month to a 30-year mortgage are a small enough price to pay for the convenience, physical pleasure and prestige of owning their own private pool.

Apartment house owners find that a pool on the premises means they can increase rents. It puts an average apartment house into the deluxe category.

Last year the entire swimming pool industry hit a retail construction volume of approximately $690 million, with 72% of the pools constructed for the residential market. And 1960 was not considered a prime year by industry standards, because the number constructed did not exceed the previous year's volume by the usual 20%.

However, industry spokesmen are quick to point out this does not indicate a slack in demand. The important purchase motivating factors are still there: status symbolism and keeping up with the Joneses. To prove it, builders point to the common phenomenon of the neighborhood boom which invariably starts right after the first pool in the area is installed.

With disposable income and savings at an all-time high, and non-essential spending still at its peak, builders feel that the pool-buying public has been only psychologically affected by the recession. After every previous recession year, pool construction has come back even stronger, and 1961 is expected to follow this pattern. Swimming Pool Age, an industry publication, forcasts an $850-million volume for this year.

What does the swimming pool boom mean for marketers in other areas? Every pool owner is a potential customer for a host of other goods and services. He needs chemical cleaning materials, bug repellents, diving boards, ladders, underwater lights, piping for recirculation and drainage, pool vacuum cleaners, automatic alarm devices and all kinds of cleaning equipment—not to mention such unessential products as beach chairs, pool murals, cabanas and portable windbreaks.

New materials have been finding use in pool construction. While pneumatically applied concrete was the most popular type of construc-

tion last year, 12.7% of new pools were plastic liner types and 4.4% were made of fiber glass, metal and other materials.

For the economy minded, there are above-ground pools that range in size from 8 to 25 feet wide. One firm makes a vinyl-impregnated Dacron pool 28 feet in diameter with an 8-foot diving area for about $850.

A fly in the ointment, however, is distribution. Its pattern is so confused that pool accessories are being distributed through equipment dealers, maintenance and service companies, builders and retail toy stores. The consequent overlapping of function makes it difficult for manufacturers to set separate builder, dealer and distributor discounts, and is the cause of a great deal of the industry's price-cutting problems. More somber observers feel that years will pass before the industry settles down to the point where a sensible distribution pattern will take shape.

Barbecues and Grills

Barbecuing is also riding the crest of the great American trend toward casual living. In 1960 more than 3.5 million grill units were sold, representing a manufacturer's value of $50 million. The contrast between that healthy figure and the 250,000 units sold in 1951 dramatically illustrates the bullish growth of the market.

Another $50 million was spent on barbecue accessories last year, and there is no accurate way to count the sales of soft drinks, summer alcoholic beverages, sauces, spices and cook-out foods consumed by millions of out-door cookers. Ten years ago charcoal was almost an unwanted commodity; last year barbecuing Americans burned up an estimated 350,000 tons of it.

The industry is even more hopeful about the future. Unofficial industry predictions say that the volume of both barbecues and accessories will double within the next few years.

But there are problems and challenges here too. Since consumers prefer briquets to lump charcoal because it is cleaner and easier to handle, manufacturers are trying to develop some kind of convenience charcoal packaging. It usually consists of a box or bag with paraffin added, which can be ignited quickly and easily. The idea sounds good, but very few have met with success.

Frank H. Fleer Corp. of Philadelphia lists its Brix among the qualified successes—qualified because the product is doing as well or better than most on the market but is still not showing a healthy profit. The product is a pancake-shape arrangement of briquets, bonded inside wax-impregnated paper and easily broken off to build any size fire. There are all sorts of variations. Diamond Match Corp. recently introduced Neet-Heet, charcoal briquets packaged in a paraffin-loaded cardboard box. But Neet-Heet is being sold this year from existing inventories, which probably means that it is being dropped.

Failures litter the market place. Some manufacturers blame distribu-

tion rather than lack of consumer acceptance. They say that supermarkets prefer the cheaper packaged charcoal to the convenience variety, and are reluctant to try the new products.

Until about 1948 nothing much happened to barbecuing. Started in the Far West, it looked as if it would stay there. With the introduction of the Habachi grill and other Japanese influences, however, barbecue fever began to spread. The pastime's versatility and convenience for use indoors and out caught the American imagination, and portable grills also began to pick up popularity.

The manufacture of grills is an uncomplicated process and garage industrialists abound in the field, but well-established manufacturers from other areas find opportunity there as well.

An example can be seen in the experience of Structo Manufacturing Co. Two years ago the company was making heavy gauge steel toys. Since its factory facilities were adaptable to the manufacture of grills, and because it wanted to fill in the production valley between December and May when toys are produced in relatively small volume, the company decided to try barbecues. Today it produces 500,000 grill units a year.

The trend toward portable grills, especially the wheeled types, appears to be strong. One company reports wagon grills as 3% of sales three years ago, 25% last year.

Barbecues make their biggest appeal to the man in the family, and he takes his outdoor cooking seriously. Recipe-swapping males have turned barbecuing into a minor art form. They are ever alert for new spices, sauces, and new ways to prepare their culinary masterpieces; and the most successful fringe food campaigns during the summer months are usually those tied in with recipes or cook books.

Foods are the immediate fringe beneficiaries of outdoor cookery. Manufacturers of party-time snacks, beverages, sauces and spices all find the market one of the most effective ways to beat the summer slump.

But when Mr. America goes outdoors to cook, his needs for many other kinds of products increase. The proud male chef almost always wants his efforts recorded on film. He wants to look the part with cook hat and apron. He needs gloves to protect himself from burns. If he cooks at night, he needs anti-bug lighting. And paper plates, plastic or steel eating utensils, and a duplication of most of the normal kitchen appointments in more durable materials are all things he needs or wants.

Outdoor Furniture

Given the barbecue and the swimming pool, casual outdoor furniture becomes almost a necessity, and growth in this industry is no less startling than it is in the others. Patio shops, the industry's basic retail outlets, were so few in number at the end of World War II that they did not even rate a separate category in most surveys; today there are about 45,000 of them.

In 1947 the wholesale value of all the outdoor furniture sold was $36

million; ten years later it reached $146 million. Today there are about 500 companies producing leisure furniture.

Impetus came when the application of webbing to aluminum was discovered. This kind of furniture rapidly outpaced the older redwood and rattan types, and now even newer materials are beginning to encroach on aluminum and webbing. A few years ago it had the lion's share of the market. In 1960 it accounted for only half of the volume. Some of the latest furniture is made of brand new materials like recently introduced plastic cording. But the strongest trend seems to be for a combination of the new and the old, and redwood on aluminum or wrought iron is becoming popular.

With all this activity occurring in the backyard, and with much of it motivated by a desire to impress the neighbors and friends, style-conscious Americans have also shown a need for clothes designed to fit the casual-living theme.

Polo shirts, shorts, sandals and casual footwear for men, and all kinds of variations on the female sunsuit are popular. Women have shown a taste for casual clothes that convert easily into something they can wear while shopping. Imported fashions ranging from fancy Italian lines to carefree Hawaiian styles abound, and American stylists have been quick to pick them up.

Indoor Party Time

Of all the new markets feeding America's zest for high living, the gourmet market is the most confusing. The National Assn. for the Specialty Food Trade estimates that total retail volume for 1960 was somewhere between $140 and $160 million, and unofficial educated guesses run as high as $250 million.

One reason for the difficulty in obtaining accurate statistics is the relative youth of the industry. While gourmet shops have been around for a long time, the real boom is no more than about five or ten years old.

Another problem is the difficulty in properly defining the category of gourmet foods. Such things as caviar, pâté de foie gras, imported tinned meats in wine, etc., are obviously in the gourmet class. But tea, preserves and biscuits—even when high priced—fall into the questionable area.

Perhaps a more reliable measure of the growth of fancy foods is the change in the number and variety of outlets handling them. But even here, accurate figures are hard to come by. From relatively few shops specializing in gourmet foods five or ten years ago, the number has grown to almost 9,000 and includes fancy foods sections in supermarkets, department stores and grocery stores.

Manufacturers attribute this rise in popularity largely to the status-conscious wife. Keeping abreast socially now requires that party fare consist of costly and exotic foods; the stranger the food, the more erudite the hostess.

Travel has also been a big factor in educating American palates for foreign cuisine, recipes and novel ways of serving. Good tourist accommodations, inexpensive and time-payment travel have enabled many of the less wealthy to go abroad, sample exotic foods and bring their newly developed tastes home with them.

But the fancy foods market can be a tough nut to crack. Witness General Foods' heroic but ill-fated attempt. Last year, 2½ years after the company reputedly got off to a fast start, it pulled its gourmet line out of retail stores, and after last Christmas stopped its mail order gourmet business. The complaint: there was not enough volume.

There's a great deal of industry speculation as to why General Foods failed. Some manufacturers feel that the line was too broad—there were 50 to 70 different items in it. They say that the big company's mistake was in trying to market fancy foods the same way it does staples, for gourmet foods do not yet represent a mass market.

Brand loyalty is reputed to be much stronger among consumers of specialty foods than it is among the staple-buying public. It's not so easy to win the older customers away from their favorite dishes, and time and patience are required to build up a quality image. It is also quite possible that General Foods doesn't have the snob appeal that the older and imported gourmet brands have.

Whether or not fancy foods have a mass-market appeal yet is a moot question. If they haven't now, they're definitely developing one. A good indication is the growing favor these foods are finding with supermarket and chain operations. As the public becomes better educated about gourmet items, more supers begin to carry them, and the pattern of distribution is changing rapidly.

Supermarkets find that it is frequently necessary to set up a special department in the store devoted exclusively to fancy foods. A box of high-price cookies will languish on the shelf of a cookie section, but sales pick up when it moves into a gourmet section.

Gourmet foods have always been big import items, but this picture is also changing rapidly. Ten to twelve years ago, probably 90% of the gourmet volume came from abroad. The actual ratio of domestic to imported items is not known, but National Assn. for the Specialty Food Trade estimates that roughly 45% to 50% of the fancy foods sold last year were domestic.

The strongest inroads Americans have made are in soups, cheeses, preserves, jellies, jams, sauces, cocktail spreads, canapé items, appetizers, tinned meats, game, fowl, assorted glacéed fruits, mushrooms, fancy prepared nuts. Especially big are the domestic variations on foreign cheeses and seafoods such as tinned lobster meat, shrimp, mussels, turtle, fancy chowders, etc.

Packaging is a big adjunct to the fancy foods market. Spice cabinets, hand-painted re-use containers and chests make attractive packaging, and

account for a lot of the shelf sales appeal. Consumers have been known to buy an item simply for the decorative package, frequently having no idea what kind of food it contains.

Relatively unaffected by the recession, the market has dealers claiming that it's recession proof. Interestingly enough, some decline was seen in the business-gift end of fancy foods last year, but the home consumption market continued to blossom.

Cocktails in a Bottle

If fancy foods are not yet ready for the mass market, pre-mixed cocktails are. With a huge middle-income group beginning to imitate the idle rich in home entertainment, the product finds ready accpetance for its convenience-plus-sophistication features.

Heublein, Inc., one of the leaders in the relatively small field, is boasting a 50% increase in sales for last year. Approximately 150,000 cases were sold in 1959; about 300,000 were sold during 1960. The company's president, J. G. Martin, expects to be selling "a million cases a year" in five years.

All this bullish talk is the more startling considering developments in the distilled spirits industry in general. While 1960 consumption of distilled spirits equaled or slightly exceeded the record-consumption of 231 million gallons in 1946, the per capita rate was approximately only 1.29 gallons or .36 gallons below the 1946 figure.

Pre-mixed cocktail bottlers are making hay of this apparent national taste for moderation. Heublein feels that it has increased sales by cutting the alcoholic content of its mixes. Its "good 25¢ martini" went from 75 proof to 67½.

Some companies, notably Austin, Nichols & Co., find a ready market for refrigerator mixes, pre-mixed beverages that are kept in the refrigerator until ready to serve. But whatever the twist on the basic idea, convenience is still the major selling tool.

Without mixes, the cocktail would face the same problem as that of fancy foods: education. Mr. and Mrs. Average Citizen would like to serve cocktails for the sophistication the drinks lend to any party, but they are ignorant of just how to prepare them. Not only was this a prohibitive factor in the promotion of cocktails in the home, but the cost of assembling the ingredients often staggered the prospective buyer. Now inexpensive, convenient and reasonably good-tasting pre-mixes provide the answer.

The Sound Wave

Once strictly an item for the realistic-sound-reproduction faddists, the Hi-Fi unit is now something that few homes care to do without—as much for prestige reasons as for the pleasure that may be derived from it.

New technological and marketing developments keep the industry in a

constant state of flux—so much so that sales figures are difficult to pin down. But growth is illustrated by comparing the 1950 unofficial figure of $12 million for parts sales with the statement of Robert Laub, v-p for sales of Lafayette Radio Electronics Corp., that "sales estimates range from $30 to $75 million a year today."

However, these figures represent only the "pure Hi-Fi" elements—the amplifiers, pre-amps, etc. The total phonograph sales, including packaged stereo and monaural sets from portable units to full console floor models, hit the $648 million mark last year. This represents the relatively low-price mass market, where much of the volume falls into the $60 to $300 per unit price range, and the area where the most dramatic growth will probably continue. Units in this market now have their complex arrangements of wires and circuitry encased in highly decorative furniture.

The industry's latest technological development, stereophonic sound, bids fair to become the sales leader of the future. Last year stereo portable phonographs pushed their 13.5% share of the market up to 17.5%, while sales of monaural units dropped sharply from 40.3% to a 27% share of the market.

Record sales are soaring too. Last year they hit somewhere near the $500-million mark—an increase of about $15 million over the previous year's sales. And the new "compact" 33⅓-speed record will provide a big boost.

As volume increases, so does variety. There are no less than 341 different speech, poetry and prose selections on record. Instruction records cover 57 languages as well as social dancing and other recreational pastimes. There are 112 children's albums on the market, and religious records, which five years ago were not numerous enough to warrant a separate category, jumped to 410. There are even records by which one can be hypnotized.

The fringe market for high fidelity includes Hi-Fi and/or record cabinets of all sizes, styles and materials. One manufacturer puts out a record cabinet with a revolving record rack.

As recordings and reproducing equipment have improved, the care of records has become more important. Consumers develop all kinds of idiosyncrasies for handling and storing records to insure their protection. Chemical cleaning cloths to wipe them, anti-static sprays to remove surface noises, felt padded tongs to handle records and felt padded racks to hold them are just some of the ways Hi-Fi users protect their precious sounds.

Tape recorders and tapes are also sharing in the boom.

Music's Dubious Charms

Despite its obvious family appeal, the playing of musical instruments in the home has not shared as much in the family fun boom as have some other pastimes. Sales have increased, but the growth figures make poor

comparison with those in other home recreational markets. While more people in America play instruments than ever before—the American Music Conference counts 28.5 million—most of the increase in musicianship has occurred in high schools and community groups.

The basic reason is probably the difficulty in mastering an instrument. If the public could be convinced that learning how to play can be easy, no doubt there would be a corresponding upsurge in playing an instrument at home. But there are few instruments that can be learned without a great deal of effort, and the home musician looks for something he can be casual about.

A case in point is the ukelele. A few years ago when Arthur Godfrey started playing the instrument on TV, it suddenly became a popular item. Millions of TV viewers got the idea that if "an average home-type guy" like Godfrey could learn to play, they could too. Conventional ukelele manufacturers couldn't keep up with the demand. Soon plastic manufacturers began to produce inexpensive, simple instruments that sold through drug chains and discount outlets, and the nation experienced a ukelele fad.

The "chord" organ is another notable exception to the general musical-instrument-in-the-home picture. Here again its enormous popularity is due to the ease with which most people can learn to play it.

Hammond Organ Co., one of the leaders in the field, advertises that it can teach anyone to play the instrument in half an hour. The company is tight lipped about sales figures, but the fact that it is spending $1 million a year on advertising is indication enough that it is doing well.

The Game Room

Games and toys appear to be cashing in on family togetherness in a big way. Game maker Milton Bradley Co. claims that profits have more than doubled in the past three years, and Parker Bros., Inc., maker of "Monopoly," says that its sales for adult games have doubled in the past five years.

The demand for a variety of games is also increasing. Many of the current types reflect adult interest in current events. Parker's "Politics," brought out in 1960, capitalizes on the election year by allowing each player to be a Presidential candidate, and in this year of the Civil War Centennial, the company has introduced its "1863" board game. Milton Bradley brought out "Civil War" and "Summit" this year.

The total toy business in the U.S. last year was $1.7 billion, but the field is vast. Unofficial estimates for the year 1954 tag the game segment at about 9% of that year's $1.25-billion market. The sales and profits figures that game-making companies have been kicking around seem to indicate that the percentage has risen to a little less than double '54's share in the toy market. A conservative estimate might be 15%.

No doubt much of the growth is due to the large number of "young" families in the country. But just as much is due to more disposable dollars

in the hands of the middle-income group. Sociologically speaking, this portion of the population has always had a strong family-centered attitude; now they have more money with which to indulge it.

Manufacturers have high hopes for this type of product. Bernard L. Gottlieb, v-p of Toy Guidance Council, Inc., says it is "pretty certain to keep moving upward." The recreation room is now almost standard equipment in most newly constructed homes. In the future there will be more marketers capitalizing on the need to fill that room with Ping-pong tables, pool tables, dart games and a wide variety of table-top games.

The Newest Market

The latest bid for the home entertainment dollar comes from renting organizations. With only two sizable companies in the virtually unexploited market—Hertz Rent-All Corp. and United Rent-All, Inc.—the growth possibilities look promising indeed.

It is difficult to ascertain just what the dollar volume of the home segment is. The present over-all industry volume is estimated at $100 million, but that includes hospital and sick room supplies, baby needs and others as well as party supplies.

However, the experience of Hertz in Chicago, and the unofficial estimate of $2-million volume for the New York City commercial market (i.e. caterers, hotels, etc.) give some clue as to the potential.

Hertz v-p, Harlan Liss, reports that "90% of the party supply volume was commercial when we set up shop in November, '60. Since then the home market has grown until it represents 60% of the party supply volume."

These figures tend to indicate a $3-million home party market in Metropolitan New York alone, just waiting to be tapped. The sale of goods to renting companies looking at this kind of potential would be nothing short of a mass market—with no distribution problems.

The range of products can sometimes stretch the imagination. As one story from Hertz indicates, housewives will go to remarkable lengths to give original parties. A woman called the Chicago office recently for an intravenous stand, the kind used in hospitals to hold blood plasma bottles. She said she needed it in a hurry.

Determined to impress the new customer with their efficient service, and not a little concerned over what seemed to be an emergency, the Hertz people hopped to and made prompt delivery. They found that the woman wasn't losing blood, but that she wanted to serve Bloody Marys from the stand at a party she was throwing that evening. Hertz has since filled several such requests.

13 Marketing to the Negro Consumer*

Controversy and emotionalism notwithstanding, there is a Negro market—a big *market, with plenty of buying brawn, and some individualistic traits that demand the attention of every marketer- Yet, when was the last time you checked the effectiveness of your advertising and marketing program for this one American in ten? Are you really reaching the Negro today, or do you just think you are?*

In this day of highly refined marketing techniques there is probably no single element as deeply cloaked in mystery, misapprehension and unfounded opinion as is the Negro market. Some marketers hotly contend there is no such market; others feel that to acknowledge its existence in marketing plans is segregation at best, an open invitation to the Justice Department at worst. Still others know it's there, but hold ante-bellum opinions on it. A few recognize the Negro market and profit from it; probably even fewer really understand it.

Like any other market, the Negro market cannot be crisply defined in terms of absolutes. Age, income, education, geographic location and many other factors create wide differences within the market. Like any other market, however, the Negro market does have its share of general characteristics. These are, in many instances, not the same as they were a few years ago; and many of the current characteristics will be different a few years from now. Indeed, it can be supposed that the Negro market itself will largely disappear with time.

But right now, there is a Negro market; and this is what it looks like.

The Size of the Negro Market

Just over one person in every ten in the U.S. is a Negro. In 1959 there was a total of 18,486,000 Negroes in this country—roughly the equivalent of the white population of the three Pacific states. From 1950 to 1959, the Negro population rose 23.2%; the total population rose 14.8%.

These figures are highly significant in themselves. Modern marketing can not afford to pass up a tenth of the population. Moreover, the high growth rate of the Negro population means that the Negro market is day by day becoming even more significant.

The Negro population is shifting, too. In spite of the great overall rate of growth, seven states, mostly in the Deep South, actually showed de-

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clines in Negro population from 1950 to '59. This means, of course, that the other states, particularly those in the Northeast, Great Lakes, and Far West areas, took up the slack and showed increases far in excess of the national average.

Generally, this shift reflects the great Negro movement from the small town agrarian economy to the richer industrial economies of the cities of the North and West. The movement is also going on within the South; many large cities, such as Miami and Atlanta, showed substantial Negro population increases as rural families abandoned unproductive farms in favor of better city jobs.

The marketer cannot help but see how greatly the Negro population has grown in major Northern metropolitan areas. Chicago's metropolitan area, for example, now contains over a million Negroes, who comprise 15.8% of that area's population. The population of the Detroit metropolitan area is 14% Negro . . . that of Washington, 25% . . . Philadelphia, 15.4%. Remember, too, that these are metropolitan area figures. Nearly all of the Negroes in these areas are concentrated in the central city. When this happens, as it almost invariably does, the percentage of the city population that is Negro often runs to 35%, 40% and even 50%. And these are not Deep South cities. Thus, Negroes are highly meaningful to the national marketer who looks to these cities for a substantial portion of his income; to the smaller regional or local marketer, they can be vital.

It is not necessary to stick to the behemoths among Northern cities to find important Negro markets. Cincinnati's Negro market is about the size of the entire city of Bridgeport, Conn. Buffalo's tops Troy, N.Y., or Decatur, Ill., in size.

In many cases, long-standing residential and employment barriers against Negroes are breaking down in the smaller cities of 200,000 and 300,000 people. When a city has a large influx of Negro families, minor Negro markets are created which, while relatively insignificant now, may become very worthy of attention in just a few years. In Rochester, N.Y., for example, there were 8,247 Negroes in 1950. Just seven years later, the state estimated the Negro population of the city at 16,000—a 95% increase.

Although growth at this rate is improbable for most cities, the rate of increase for fair-size cities in most areas is quite substantial.

It must be remembered, too, that whether there are a few thousand or over a million Negroes in a city, they can't really be considered in terms of the percentage of the population that they comprise. Obviously, when you hear that "one in every nine persons" in a certain metropolitan area is a Negro, it does not mean that they are spread out evenly in all areas. Usually the overwhelming bulk of the Negro population is concentrated in a "market" of seldom more than one or two square miles, whereas the white population, eight times as large, will be distributed throughout an area which may be several hundred times as large. This compactness

and virtual segregation of the Negro population creates a solid, often seemingly independent Negro community. This one factor is perhaps the most important force creating a solid Negro market today; when the physical solidarity is eliminated by full assimilation of the Negro family into white neighborhoods, the marketing significance of the Negro, as such, will be greatly weakened.

Quality of the Negro Market

Sheer numbers, of course, are not enough. The millions of people must have dollars to spend before the market becomes significant. The facts again bear out the value of the Negro market.

According to the Bureau of the Census, median income of the non-white[1] family amounted to $2,711 in 1958, or 51.2% of the median white family income of $5,300. But these figures present a somewhat distorted view.

In the first place, 1958 was a recession year. The Bureau of Labor Statistics comments that "About one out of seven Negro male workers was jobless in April 1958, and a large proportion of these men were from unskilled and semiskilled occupations. These are the occupations where layoffs were heaviest. From 1957 to 1958, employment of both white and Negro men in semiskilled jobs declined almost 10%. In the unskilled group, however, employment declined more sharply for Negro men than for white men."

Then, too, it is more meaningful to the marketer to look at the median income of urban non-white families than at national median incomes. In 1958, the median income of the urban non-white family was $3,392, or nearly 60% of the urban white family's $5,679.

There are other factors altering the Negro income picture substantially: Well over a million Negro men and women are employed as what the Bureau of the Census calls "service workers, except private household." Virtually all of these are in a position to receive tips, many of which probably never find their way into official income statistics.

In addition, there are another million-plus Negroes working as private household workers whose incomes are somewhat augmented by meals, transportation costs, and even lodging, furnished by employers over and above regular wages.

The outlook for growth of Negro family income is good. As racial barriers slowly crumble, more and more Negroes are being judged on the basis of merit and are moving into higher paying jobs. In many areas, an influx of other minority groups, notably Puerto Ricans, is giving the

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[1] The term "non-white," which is usually used by the U.S. Government, represents a group that is about 95% Negro, with the rest Indian, Chinese, Japanese, Filipino, etc. The non-Negro segment of the non-white classification is usually significant only in those areas (such as the large cities on the Pacific) that contain sizable colonies of these groups.

Negro a gentle push up the economic ladder by replacing him in non-skilled jobs.

This year may mark a substantial increase in Negro income. Many observers feel that Congress is sure to hike the minimum wage of $1.25 per hour. If this occurs, it will undoubtedly affect a higher percentage of Negroes than of whites.

If level of educational achievement can be considered any indication of future financial success, it is significant that non-white enrollment in colleges and professional schools jumped 86.4%, from 114,000 to 212,000, from 1950 to 1958. Total enrollment during that period went up only 49.8%.

The Negro Consumer

For the most part, a Negro shopper buys or does not buy an item for exactly the same reasons as his white counterpart. There are, however, a number of special influences that make it impossible to consider his buying motivation identical to that of the white consumer. Some of these influences are very real; some, perhaps fanciful today, are relics of a gone-but-not-forgotten age.

The Negro of greatest marketing importance is urban. And, like all urban dwellers, he is less likely to spend his money on the wealth of suburban living items that are flooding today's markets. Garden tools, grass seed, hammocks and housepaint are not likely to take many of the city dweller's dollars.

The Negro is limited in the ways he can spend money. His leisure-time activities in particular are often stunted by legal, quasi-legal or psychological means. Almost nowhere is he allowed to belong to good country clubs or yacht clubs. In some areas he is simply prohibited from enjoying the privileges of good restaurants and vacation resorts. Even when not prohibited, he often prefers to stay home rather than run the risk of being snubbed or spending his money in substandard facilities "for Negroes only."

The Negro has many different attitudes, likes and dislikes. Many of these differences result from the fact that he has, over the years, been forced to create his own structure of society. Built into this are institutions to take the place of those from which he is excluded, and suitable substitutes for some he was unable to build for himself. This self-made structure, built within narrow geographic confines, is bound to be slightly different.

In many ways, the Negro can be said to be a big spender. Not in the stereotype sense of devil-may-care wastefulness, but in the sense that he has better things to do with his money than save it. Primarily, he wants to upgrade his family's standard of living; after hundreds of years of watching the "other half," the Negro knows that he wants to live as well as his income will permit. Then, too, it has just been in recent years that

many Negroes have had enough disposable income to allow them to relax a little.

It is said that the Negro is a chronic impulse buyer, and while there is little to prove or disprove this, it does stand to reason that impulse buying will soar in any situation when a person finds he has some extra money for the first time. It no doubt also becomes something of a form of entertainment with the Negro, who must constantly look for forms of recreation that are both acceptable and permitted to him.

The Negro prefers national brand merchandise (and is usually very loyal to those he likes) and older, respected stores. Some observers feel that this is a search for prestige, and there can be little doubt that such a need may play some part. It is more likely, however, that the Negro prefers branded items and the better stores because of the safety they afford him. The Negro has been so frequently "taken" by unscrupulous merchants who overcharged him, gave him shoddy merchandise, and so generally bilked him (and it still happens today to some degree) that he has become a very wary shopper.

This brings up another phenomenon: the Negro does not respond to bargains to the same degree as the white shopper. Some retailers in downtown heavy Negro areas have concluded that Negroes spend too much on impulse and don't have enough left to respond to bargains.

This conclusion is probably quite wrong. A recent U.S. Department of Agriculture study on the effects of coupons and special offers on sales of butter, margarine, shortening, salad and cooking oils shows that non-white households buy far fewer products with consumer deals than do white families. For example, with shortening, the study shows that although non-whites bought much more shortening during the 2-year test period, only 30% of non-whites bought "deals," compared with 58% of native whites. "Deals" on margarine came out 22% non-white, 54% native white; and on oils, 10% non-white and 30% native white. Obviously, then, money availability has little to do with these inexpensive day-to-day purchases. Again, one strong reason must be the reluctance to accept offers of "greater value." This also means that once the Negro housewife finds a brand she likes and trusts, she is extremely reluctant to take a chance on another.

No discussion of the Negro as a consumer could be complete without a mention of the fact that he is under a pressure to spend that is probably far in excess of that felt by the white consumer. This comes from the fact that the Negro is not only driven to build himself up to the level of an outside, or white, society, but perhaps more important, he feels the need to keep pace with the more immediate society in which he lives. We see him, then, in a consuming situation in which he has, as Ebony says, "the exhausting task of catching up with the white Joneses [and] also keeping up with the black Jacksons."

It must be emphasized again that to expect every Negro to display

these traits would be as foolhardy as expecting all whites to act alike. Like everyone else, the Negro is a product of his society . . . and his society is just enough different from the larger one around him to be of significance to the marketer.

Marketing to the Negro Consumer

Like anything else, the marketer will gain from the Negro market in direct proportion to what he puts into it. The closer he comes to a rounded total marketing effort, the more successful will be his campaign.

Negro Population, Selected Metro Areas

	Negro Population		% of Total Population	
	1950	1959	1950	1959
New York—n e N J.	1,013,616	1,447,338	7 9	10 0
Los Angeles—Long Beach	218,954	457,798	5 0	7 1
Chicago	586,663	1,013,323	11 3	15 8
Philadelphia	480,134	677,464	13 1	15 4
Detroit	357,857	547,860	11 9	14 0
San Francisco—Oakland	147,361	195,231	6 6	7 1
Pittsburgh	82,453	108,399	3 7	4 5
St. Louis	153,766	212,391	9 0	10 3
Washington, D. C.	337,757	490,242	23 1	25 1
Cleveland	147,847	251,116	10 1	14 3
Baltimore	265,415	370,616	18 9	22 8
Buffalo	36,645	78,192	3 4	5 8
Houston	124,761	210,874	15 5	17 3
Milwaukee	22,129	60,892	2 3	5 2
Cincinnati	112,828	170,730	12 5	15.9
Kansas City	55,682	88,313	6 8	8.5
Dallas	56,958	101,601	7.7	9.9
Seattle	16,753	25,845	2.0	2.5
San Diego	16,999	29,084	3.1	3 1
Atlanta	165,591	214,539	22.8	23 2
Miami	40,262	76,544	8.1	8 8
New Orleans	181,775	165,809	26.5	19.1

Source: Markets Statistics Inc.

Compared with most new markets, the Negro market is usually easy to crack. One major reason for this is that the Negro does not especially want to be a white person; it is his desire, rather, to be treated like any other first-class citizen. Consequently, when a large, "white-run" company acknowledges the Negro's value as a first-class customer, he naturally develops a liking for that company and its products. Added to this, of course, is the fact that there are comparatively so few companies doing a good job of marketing to the Negro, that competition probably will be pretty slim.

In all fairness, it must be added that under some circumstances the Negro market can be extremely difficult to enter. This usually happens when a competitor is doing a strong, continuing marketing job, and has

built a great deal of loyalty to his brand. Unless his efforts weaken, Negro consumers will probably be quite reluctant to switch brands.

But, like any others, the Negro markets in various areas must be carefully evaluated before a company begins a Negro marketing operation. For example, a company which makes an inexpensive product or a staple

Negro Population, By States

	Negro Population (thousands)		% of Total Population		% of Change
	1950	1959	1950	1959	
Ala	979 6	909 9	82 0	28.6	− 7 1
Ariz	26 0	36 6	3 5	3 1	+ 40 8
Ark.	426 6	421 8	22 3	24 0	− 1 1
Cal	462 2	766 9	4 4	5 1	+ 65 9
Colo	20 2	34 7	1 5	2 0	+ 71 8
Conn	53 5	105 0	2 6	4 4	+ 96 3
Del	43 6	59 9	13 7	13 6	+ 37 4
D C	280 8	431 0	35 0	52 3	+ 53 5
Fla	603 1	881 2	21 7	19 8	+ 46 1
Ga	1 062 8	1,058 6	30 9	27 6	− 0 4
Idaho	1 1	1 1	0 2	0 2	0 0
Ill	646 0	1,101 5	7 4	11 2	+ 70 5
Ind	174 2	293 4	4 4	6 4	+ 68 4
Iowa	19 7	24 3	0 7	0 9	+ 23 4
Kan	73 2	117 0	3 8	5 4	+ 59 8
Ky	201 9	228 2	6 9	7 5	+ 13 0
La	882 4	950 9	32 9	30 4	+ 7 8
Me	1 2	3 4	0 1	0 4	+183 3
Md	386 0	318 9	16 5	17 0	+ 34 4
Mass	73 2	115 8	1 6	2 3	+ 58 2
Mich	442 3	711 7	6 9	9 0	+ 60 9
Minn	14 0	19 0	0 5	0 6	+ 35 7
Miss	986 5	848 8	45 3	39 7	− 14 0
Mo	297 1	430 4	7 5	10 0	+ 44 9
Mont	1 2	1 5	0 2	0 2	+ 25 0
Neb	19 2	32 4	1 4	2 3	+ 68 8
Nev	4 3	10 2	2 7	3 7	+137 2
N H	0 7	1 9	0 1	0 3	+171 4
N J	318 6	505 9	6 6	8 7	+ 58 8
N M	8 4	13 2	1 2	1 5	+ 57 1
N Y	918 2	1,329 4	6 2	8 0	+ 44 8
N C	1,047 4	1,043 1	25 8	23 0	− 0 4
N D	0 3	0 4	0 0	0 1	+ 33 3
Ohio	513 1	811 4	6 5	8 5	+ 58 1
Okla	145 5	159 6	6 5	7 0	+ 9 7
Ore	11 5	15 9	0 8	0 9	+ 38 3
Pa	638 5	868 8	6 1	7 7	+ 36 1
R I	13 9	21 9	1 8	2 6	+ 57 6
S C	822 1	800 6	38 8	33 7	− 2 6
S D	0 7	0 9	0 1	0 1	+ 28 6
Tenn	530 6	578 0	16 1	16 7	+ 8 9
Tex	977 5	1 239 9	12 7	13 0	+ 26 8
Utah	2 7	3 9	0 4	0 4	+ 44 4
Vt	0 4	0 9	0 1	0 2	+125 0
Va	734 2	816 3	22 1	28 3	+ 11 2
Wash	30 7	49.5	1.3	1 8	+ 61 2
W Va	114 9	84 5	5 7	4 3	− 26 5
Wis	28 2	62 4	0 8	1 6	+121 3
Wyo	2 6	3 5	0 9	1.1	+ 34 6
U S	15,042 6	18,526 0	10 5	10 6	+ 23 2

Source: Market Statistics Inc.

item might prefer to begin in the South where, although income is low, the number of Negroes and the percent of total population they represent is highest. On the other hand, the marketer of more expensive or luxury-type items might prefer the richer northern market.

Selling to the Negro market is not really a very complicated affair. Practically everything that holds true for the white market holds true for

the Negro market. Most experienced marketers prefer to use Negro salesmen to sell to Negro store owners or managers. They not only can put the customer at ease and gain his confidence more quickly, but they have a better understanding of the Negro retailer's selling conditions.

Incidentally, the great majority of stores in Negro neighborhoods are operated by whites, but these retailers, too, usually prefer to have Negro salesmen call on them because they feel that Negro salesmen are the only ones who have the feel of the market.

Advertising to the Negro is probably the area of biggest failing by marketers. All too often marketers contend that "Negroes can read and listen, so they are exposed to my ads like anyone else." Although this is true, it is not the whole story by a long shot. While they may be sold by a product advertised in regular media, chances are that they could be easily unsold by a competitor's ad in a special Negro medium.

Reasons for this are many. In the first place, the previously mentioned recognition factor gives any ad in Negro media an edge. Also on the positive side is the fact that with many local Negro media, such as radio or weekly newspaper, the station manager or editor is a leader in the Negro community. He is respected and liked; and products that are advertised via his medium are also liked.

Then there are negative factors working against white media. Most obvious is the fact that, to the Negro, the usual mass media are not "his." Virtually everything they produce is designed for and about white people. Even those media most sympathetic to Negroes usually only treat the relatively minor side of their day-to-day life that involves inter-racial relations.

Also, few mass media are entirely free of material that is offensive to the Negro. Often this is a minor error of bad judgment; sometimes on broadcast media, there is a slip of the tongue or, in between national shows, an offensive spot ad or local program. These slights are not quickly forgotten; word of them spreads, and the result is strong condemnation of the specific offender, with a carry-over bad image of similar media and those who advertise therein. For example, last September a columnist in the Negro Pittsburgh Courier roundly condemned a radio station and a TV station, both of which were hundreds of miles away. On one, there was an offensive departure from the script; on the other, a slip by an interviewee on an audience participation program. Thus, what might seem to be simply two unfortunate occurrences becomes a major issue to the Negro.

Negro media, on the whole, are highly effective and, for the value received surprisingly inexpensive. One word of caution: Negro radio, an excellent medium, has in some cases been invaded by unscrupulous promoters.

Very little extra effort is required to produce an advertisement that is

successful with the Negro. Obviously, the Negro has a hard time identifying with most of the ads in typical white media. In fact, ads which talk of "lovelier, WHITER hands with XYZ Soap" or ads promoting contests in which first prize is a week at some posh hotel in the sunny, segregated South, can be downright offensive. But most ads, with the artwork changed to show Negroes, can be run successfully in Negro media.

Naturally these concepts also apply to sales promotion material sent to Negroes or displayed in Negro stores.

Other forms of sales promotion will often meet with different reactions when used in the Negro market. Again, remember that Negroes tend to be unresponsive to coupons, combinations and other deals.

On the other hand, sampling at Negro schools, conventions and social gatherings is often highly successful.

House-to-house promotion has been extremely successful in many Negro areas. In this promotion, Negro canvassers visit with housewives, point out the merits of one or more products, and often leave samples for her to try. This method is probably best in highly competitive situations.

Sales Management's Negro Market Statistics

In Tables 1 and 2 on pages 97–98, we present the first set of systematic estimates of Negro population for states and metro areas, which reveal the extent to which Negroes have migrated out of the South to the large metropolitan areas of the North, Midwest and Pacific regions.

The rate of migration out of the South has been in excess of past trends. In the six "Deep South" states of Alabama, Florida, Georgia, Louisiana, Mississippi, and South Carolina the Negro percentage of total population has declined from an average of 32.8% in 1950 to 28.5% in 1959. Rural southern areas have been the chief losers, for some southern metro areas actually increased their Negro proportions.

Negro migrants have continued to flow toward the major northern urban concentrations of New York, Chicago, Philadelphia, and Detroit, all of which have gained 50% or more in Negro population since 1950. Perhaps more surprising has been the even greater percentage gains in Los Angeles, San Francisco, San Diego, Seattle, other western areas.

These trends suggest that Negro population in the future will be more and more evenly spread, although even at the rapid rates indicated here, two more decades would be required to reduce the Negro population of the Deep South to 20% or so of the total. It is significant that in 1950 the state which had the highest Negro proportion was Mississippi, with 45.3% of its population Negro. Today, Washington, D.C., proper with 52.3% of its population Negro has the highest Negro concentration in the nation.

The statistics cited here have been developed from an analysis of the relation of population migration to birth rates, by color, which is now available on a county basis. Interested parties may write to Market

Statistics, Inc., 630 Third Avenue, New York, 17, for further details. IBM cards, for example, are available, showing the number of Negroes, by county, as of Jan. 1, 1959.

14 What's It Take to Sell the Farmer?*

No longer an amorphous market, the farm consists today of measurable areas of strength that demand unique selling efforts, unique promotions. Here's how some companies are going about tapping those areas.

Things just aren't the way they used to be down on the farm. The farmer has ceased being a separate segment of the American culture. His way of life, which in the past combined his business with his living, has advanced to the point where today he is more an industrialist than a homesteader.

And marketing to farmers, which has never been as aggressive as urban marketing, is being forced into a real awakening by two factors, both closely related to themselves and to the farmer's new status: the actual change in the farm market, and the competitive pressures the change has brought with it.

The last two United States Census surveys pointed up the great changes in the farm market. These and other surveys indicate, among other things, that today's farms are larger, but there are fewer of them, and that farm income is higher, but profit margins are slimmer.

Moreover, farm manpower is being replaced by mechanics and chemistry; consumer spending on the farm is higher (though there are still proportionately fewer rural consumers); and with a car, the farmer today is hardly different from his city cousin.

The evolution in agriculture over the past 30 years has been so rapid that it has been difficult for marketing men to keep pace. During the early stages, companies were pressed to keep up with demand. The market definitely favored the seller, and marketing was largely a matter of supply.

Implements, for example, long a lucrative branch of agri-marketing, today comprise virtually a replacement market: An overwhelming percentage of farmers now are so well-equipped that they make few new

* Reprinted by special permission from *Printers' Ink*, December 15, 1961. Copyright, 1961, Printers' Ink Publishing Co., Inc.

implement purchases. Reaction: Many implement companies are placing more emphasis on the manufacture of related products (trucks, heavy equipment), and are attempting to find markets other than farms for tractors and other heavy equipment.

Consumer products, especially in the appliance lines, have sold well to the farmer during the past 15 years. War-boom prices enabled farmers to equip their homes with electricity and, not long after that, with modern stoves, refrigerators, heating plants and television. But now consumer goods, too, are feeling a relapse.

What are advertising and marketing men doing to hang onto this changing and elusive farm market?

Richard J. Cech, supervisor of agricultural accounts at Marsteller Inc., Chicago, last week described how that agency has reacted to the changing farm attitudes.

The Fox River Tractor Co., Appleton, Wis., a firm specializing in forage harvesters, has been with Marsteller approximately five years, has been spending less than $100,000 per year in a broad-based national campaign. Formerly, Fox River used a variety of small ads in a wide selection of farm publications.

Early this year, however, agency-company planners took a long look at figures showing that (1) 12 states in the north-central region were accounting for 60 per cent of the company's sales, and (2) that another 22 per cent could be attributed to specific middle Atlantic areas and portions of New England.

With 82 per cent of the company's $4,500,000 sales volume thus pinpointed, the agency and company marketing men decided that it was time for a change.

Their first move was to select those media most useful in reaching the states with either a high forage harvester "population" or a high forage harvester potential. Hoard's Dairyman, selected editions of *Successful Farming*, Virginia and Carolina editions of *Progressive Farmer*, *Western Livestock Journal* and *Western Dairy Journal*, *Farm Quarterly* and the *Midwest Farm Paper* figured prominently in these new media plans.

Cech and account executive Owen Hock then went to Appleton hoping to find a new copy approach. They were able to isolate 23 features about the machines that made good copy.

From the Cech-Hock research emerged strong benefit headlines such as: "Fox gets you out of the field an hour earlier each day." At the bottom of each ad appeared a coupon—the first ever used in Fox advertising.

With the new ad campaign, and special promotions (often using the ads themselves), Fox River was able to increase sales through its own dealers by more than 20 per cent. Much of the increase came from the 700 to 800 coupons passed on to dealers and scrupulously followed up during the critical sales months of April through September.

Marsteller's Cech works on another farm-market account he is just as

proud of—one his agency has had for many years. This one is the Moorman Manufacturing Co., Quincy, Ill. On the Moorman account, Marsteller uses a technique that has almost become synonymous with farm advertising—the testimonial or case history.

Moorman distributes feed concentrates through a system of some 2,000 direct salesmen. Their advertising approach has been generally the same since the early '50s and the company has no intention of changing it. Nor does the agency contemplate recommending a change.

Very simply, the campaign amplifies a Moorman slogan, "Our customers are our best salesmen." Marsteller men go into the country, contact customers and interview for testimonials. First the testimonials are run as ads in farm publications. Then they're reproduced and issued to the company's salesmen for insertion in a case-history booklet, carried by each Moorman representative.

In selling, the salesmen have found that one neighbor's testimonial for Moorman products has a profound effect on another's buying decision.

Cech feels that in advertising and marketing to the farm of today, "There is no point in changing for the sake of change. The real point is recognizing when your ads and marketing strategies are doing their most efficient job, and when they stop. Any market can change. And when you're aware of the change, you've got to constantly examine and re-examine what you're doing. Just because a technique is old is no sign it isn't useful. But old or new, you can't take the usefulness of any techniques for granted."

Contests are becoming an effective tool in the farm market, especially the "sweepstakes" contest, where the entrants' names are dumped into a hat and picked out to receive prizes. At least two large producers of agricultural chemicals are now in "sweepstakes" up to their necks.

Charles Pfizer & Co., New York, has used contests for a number of years in promoting its farm chemical products. But for the 1962 selling season, it has launched the largest contest in its history—a "Terramycin Checkstakes" contest in which the idea is to create more awareness of Terramycin as a brand different from other antibiotics.

"Checkstakes" offers a $25,000 grand prize and 1,000 second prizes, each a five-dollar gift certificate good toward the purchase of any product containing Terramycin.

The contest is being carried to all rural areas of the country through advertising in 28 state-wide farm publications. Local dealers are also handling entry forms. To enter, a contestant writes his or her name after "Pay to the order of . . ." on the face of a check carried in the advertising, and leaves the blank with a dealer.

Pfizer will not comment on the success of their past contests, but a spokesman admitted the company has been pleased with the results. The reason for company silence—possibly also the reason for continuation of consumer contests—was cited as "intense competition."

Pfizer's agricultural products line consists of animal health products, feed supplements and veterinary supplies. They are advertised through Leo Burnett, Chicago.

The Spencer Chemical Co., Kansas City, is just entering its second year of a consumer sweepstakes promoting soil nutrients, through Bruce B. Brewer & Co., Kansas City. M. H. Straight, Spencer's director of advertising, told *Printers' Ink* that initially the company had thought more in terms of a sales promotion than a contest. Last winter, however, Spencer announced, through ads in a number of farm publications, its contest for "all the plant food you can use to produce top yields in 1961."

The Prize Was Enlarged

The company, with sales in the $25–30-million bracket, realized 23,833 entries. Last year's contest placed a limit of $2,500 in fertilizer on the "main" prize; this year Spencer upped the limit to $3,000. To date, said Straight, entries are coming in at triple the rate of last year.

In addition to the "main" prize, Spencer offered 25 "first prizes" of $100 worth of fertilizer; 50 "second prizes" of the Farm Journal Cookbook; and 75 "third prizes" of soil fertility books.

The firm promises a soil-fertility analysis of the winner's land and pledges to bring the land up to par using Spencer fertilizers (or those of any other company, if the tests show them necessary).

Straight said of the contest: "The fertilizer business is changing fast. We are in this not only because the market has changed. If the market had stayed the same we would probably have done the same thing. Greater competition as much as anything has forced us to find a way to push up our sales. Through the sweepstakes we have realized good results."

Straight would not attribute Spencer's sales gains directly to advertising. "We feel we have an effective marketing mix," he said. "The contest is simply the most spectacular thing we are doing."

What about the individual farmer? Can he be isolated as a consumer in this specific market? Many marketers don't think so; and according to statistical studies, they are right. Nevertheless, definite buying habits can be ascribed to the rural population. Distance and time are probably the most outstanding of these.

One firm with a long-standing knowledge of the farmer as a consumer has capitalized on that knowledge dramatically. Gamble-Skogmo Inc., Minneapolis, which operates a chain of auto supply stores throughout the farm belt, selling everything from auto parts to major appliances, two years ago tried an experiment that is strongly reminiscent of an urban style of marketing now in vogue and becoming more so: the discount house.

For its experiment, Gamble concentrated on one item: home freezers. By contracting for a huge number of the freezers from a single manu-

facturer, the company was able to offer a $250 freezer for $200. Store operators took orders in advance, and the freezers were shipped to each store location in carload lots. Customers picked their units up at the railroad siding, thus eliminating delivery costs.

The Gamble freezer sale was advertised in such national media as *Life* and *The Saturday Evening Post*, farm publications and newspapers, and on the radio. The ads were supported by direct-mail circulars printed in runs of 3,500,000. Dealers advertised locally as well.

Similar Sales Coming Up

Gamble-Skogmo vice-president H. J. Frommelt told *Printers' Ink* recently that the company was so pleased with results that it has since run similar sales on freezers, refrigerator-freezers, washers and dinette sets. Frommelt said the company has plans to market other items in the same manner.

Profits and sales were significantly increased through the car-lot technique, Frommelt said. To his knowledge, he added, Gamble-Skogmo is the only firm now carrying the "discount house" to the country in a railroad car; but he expects other companies will try it soon.

These are but a few examples of the new marketing strategy now being successfully employed in reaching one of the oldest markets in America. And as this market continues to undergo radical change—and most experts agree that it will—advertising and marketing men must keep pace and constantly refine their strategy to most efficiently service the progressing farmers.

15 Marketing Switch to Boost Flexonics' Sales and Profits*

BY LEO ANDERSON†

Flexonics Corp., Maywood, Ill., has proved that its marketing can be as flexible as the metal hose it sells to industry. The company has pulled a complete switch in marketing emphasis—from concentrating on the original equipment market to giving equal emphasis to maintenance and replacement sales.

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† *IM* Managing Editor.

It hopes to increase its volume and profit substantially as a result.

Flexonics, a subsidiary of Calumet & Hecla, Chicago, makes, among other things, flexible metal hoses which are used in manufacturing and processing plants to connect pipes which are misaligned or which are subject to various kinds of shocks, vibrations and motions.

Until this year, 60% of the company's hose sales came from the original equipment market. The other 40% came from the maintenance market, which is covered by industrial distributors.

Now the company aims to change that ratio by providing better service through distributors and thus increasing sales to the maintenance market, while keeping its position in the O.E.M.

"The reason for the switch is that we came to the conclusion that the big business really was in maintenance," Edward Malling, marketing vice-president of Flexonics, told *IM*.

"This conclusion became obvious," Mr. Malling said, "When we began analyzing the types of orders we were getting from distributors, and particularly the kind of service in terms of delivery that we had to meet in order to serve our ultimate customers well. Even though much of this volume was in engineered orders (orders for hoses requiring special fittings or alterations), no time could be allowed for geographical distance. Service had to be 'on the spot.' The answer seemed obvious—provide it on the spot by using our distributors."

The trouble was that the company didn't have enough distributors to take advantage of the potential that this volume of distributor orders indicated—and also most distributors were not set up to handle the engineered orders.

What To Do

The first step in hitting this high-potential maintenance market was to concentrate on building up the distributor organization and broadening distributor services.

Flexonics currently has about 80 distributors, and expects to increase this number to 150 by the end of the year. Until recently distributors sold only "commodity" items—standard hoses sold off the shelf. Under the new setup, they'll handle engineered orders as well.

To sell old distributors on broadening their functions and to obtain the right kind of new distributors, Flexonics has launched an integrated advertising, promotion and sales program.

Heavyweight Promotion

The big gun in this program is an impressive looking brochure, which Flexonics salesmen are using to sell industrial distributors on selling Flexonics hose. The brochure is big (it weighs one pound, eight ounces, including a genuine silver dollar attached to the cover), and it contains a host of items designed to gladden the heart of any industrial distributor.

The brochure pretty much tells the story of the new marketing program, which has been dubbed the "PMS Program"—for "Pipe Motion Specialists." "The Flexonics PMS Program means extra profit for you," proclaims the cover of the brochure. (The silver dollar nestles inside the "o" in "profit.")

Inside, in quick order, the brochure gives a rundown on the types of industries and types of equipment in which Flexonics hose has applications, shows the kinds of problems the hose solves, gives a brief history of the company and then goes on to spell out the specific advantages to the distributor of taking on the company's line.

These advantages include formal training for distributor service personnel, assistance and training for distributor salesmen by Flexonics field men, a written distributor agreement, a written statement allowing distributors to return a certain amount of unsold Flexonics products, national advertising, ad mats, product application bulletins, promotional literature, catalogs, promotional decals, direct mail and detailed market information for each individual distributor.

Salesmen Sell It

The brochures, designed and written by Flexonics' agency—O'Grady-Andersen-Gray, Chicago—cost about $10 apiece. About 150 were produced. The company's 58 field salesmen now are in the process of personally presenting the brochures to current and prospective distributors.

Solicitation of current distributors began April 1. By early May, 75% of them had agreed to work under the new setup. Most of the others have indicated they'll participate as soon as they can get delivery on the welding and brazing equipment and hire the trained personnel necessary to work on engineered orders.

The necessary distributor investment is small—$300 to $700 for welding and brazing equipment. Several of the distributors have bought such equipment from Flexonics warehouses, which now have been abandoned with the advent of the PMS program.

"Our five warehouses could do only a partial job in providing fast assembly service," Mr. Malling said. "With some 100 key industrial areas in the United States, it was apparent that if we were to be on the spot with service when needed, distributors were the answer, not warehouses."

Getting New Distributors

Flexonics began its campaign to acquire new distributors with a gatefold insert ad, pushing the advantages of the PMS setup, in the May issue of *Industrial Distribution*. The insert also is used as a mail piece, being sent to a list of prospective distributors.

Flexonics salesmen began making their calls on prospective new distributors on May 10, looking more for quality than quantity in their "sign-ups."

Backing up the promotion to distributors is a campaign which will open in the July issue of *Mill & Factory*. This campaign promotes Flexonics' hose to end users and emphasizes that the product is available through "Pipe Motion Specialist" distributors. Additional advertising in vertical publications in several fields also will stress the "PMS" theme.

Special Push

To give the program added impetus, Flexonics is establishing a staff of distributor specialists who will call only on distributors and help them with any problems that develop. One man already has been appointed a distributor specialist, and the company plans to have at least five such specialists, in major market areas, by the time the new program is completely operative.

These specialists—as well as the regular Flexonics salesmen—will work closely with distributor management and salesmen. One of their prime duties will be to conduct semi-annual sales meetings at each distributor's place of business. These meetings, which are specifically provided for in the Flexonics distributor agreement, will be used to bring distributor personnel up to date on product developments, applications and selling methods. In addition to conducting meetings, the Flexonics field men will work individually with distributor salesmen when necessary, showing them how to spot applications for Flexonics hose at customer plants. They also will help distributors utilize the company's special promotional services, such as direct mail, ad mats and promotional bulletins.

In addition to training distributor salesmen, Flexonics gives distributor shop personnel formal training at the factory. These men, who will perform the welding and brazing on engineered orders, are brought in for training courses which range from three days to one week, depending upon the men's prior knowledge of the necessary processes. The distributor pays his men's transportation to the Flexonics plant for these schools, and Flexonics pays living expenses.

As a result of the formal and in-the-field training, the distributors' salesmen and servicemen become qualified "Pipe Motion Specialists"—that is, the salesmen learn how to spot places where Flexonics hoses are applicable and to recommend the right kind of hose, while the servicemen become experts in working on the engineered orders.

More Volume, More Profit

Last year Flexonics had a sales volume of approximately $3.6 million in flexible hose (out of a total of $18 million, including several other product lines).

"This volume, we believe, put us in first place as a flexible metal hose supplier by a close margin," Mr. Malling said.

"This year, we expect to increase our hose sales volume and really nail

down our number one position," he said. "And in addition, we look for increased profits. That's because, in passing on the small engineered orders to the distributor, we increase over-all efficiency by letting him do the work he can do best, while we, in turn, can concentrate on the large production orders which we can do best."

PART THREE

PRODUCT AND PRODUCT LINE

16 Many New Products Fizzle Despite Careful Planning, Publicity*

BY BURT SCHORR†

A Philco TV Line Is Found Too Extreme; Public Panel Misleads Bristol-Myers

The Catsup Bottle Battle

New York—One breezy May morning in 1958, a bus load of magazine editors from Manhattan rolled up to the Huntingdon Valley Country Club north of Philadelphia. As the editors assembled inside, each received a glossy green brochure proclaiming: "You are looking at 1965. Philco takes the most spectacular forward stride in television history. . . ."

Thus began the elaborate unveiling of a new Philco Corp. product line—Predicta television sets.

If distinctive appearance guaranteed brisk sales, the Predictas seemed destined for success. They were unusually slim, utilizing a picture tube considerably shallower than any previous type. Some models featured a screen unit—little more than a picture tube with a metal base—that was separate from the rest of the set; the screen could be placed across the room from the cabinet containing the receiving and tuning gear and could swivel to face any direction.

"For the first time, we had designed TV sets as instruments, distinct from furniture," recalls Armin Allen, Philco vice president in charge of products. Sipping highballs and munching hot crab cakes following the presentation, the editors were inclined to agree that Philco's innovations were indeed bold and striking, and they later said so in a rash of copy acclaiming the Predicta line.

Public Unimpressed

But the public apparently was unimpressed. Though an initial burst of dealer enthusiasm led Philco to double production at the start of 1959, orders began to dwindle by the middle of that year. They kept falling,

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† Staff Reporter of *The Wall Street Journal.*

and last year—long before such a basically revamped product line could normally be expected to expire—Philco stopped shipping Predicta models to dealers. The Predicta line, for which Philco had exceeded development and retooling budgets by 25% and on which profits had been negligible, was clearly a flop.

Though the splashy promotion accompanying the launching of the Predictas may have made their subsequent troubles especially conspicuous, Philco's unhappy experience is far from unusual. Many firms are bringing forth new products these days in an effort to hold their own against ever stiffening competition. In some cases, of course, they pay off handsomely; U.S.-made cars provide a conspicuous example. But more often the new products turn out to be duds as far as consumers are concerned.

Lippincott & Margulies, a New York industrial design concern, underscores the high casualty rate. The firm says its research indicates that of every 26 new products introduced by industry, 23 fail. Similarly, McCann-Erickson, Inc., a large advertising agency, reports that of every 25 products test marketed, only one succeeds.

Spotting a Flop

Sometimes a product destined for failure can be spotted early, perhaps at the test-marketing stage, and killed off quickly. Other times, as in the case of Ford Motor Co.'s Edsel fiasco, they may grow into full-fledged, costly enterprises before it becomes evident they have no future. Commenting on the tendency for some new product projects to move ahead inexorably once they get under way, a psychologist employed by a design firm observes: "Products can take on a life of their own. When the wheels of an organization get going, there's often no turning back."

No matter when a firm cancels a new product, however, a failure costs money, either in the form of losses or narrowed profit margins. This consideration spurs efforts to diagnose past flops in hopes of avoiding similar mistakes in the future.

The theories put forward to explain failures are as varied as the products themselves. Pondering the passing of the Edsel, experts in the art of hindsight have called it a case of a product with the wrong name, the wrong price and the wrong design which was introduced at the wrong time. As for the Predictas, the merchandising manager of one retail chain that bought large quantities suggests that "the price was too high and the design was too extreme. People said the sets were nice to look at, but they wouldn't want to have them in their own homes."

Misjudging a Market

Richard J. Coveney, vice president of Arthur D. Little, Inc., an industrial consulting firm which assesses more than 2,500 new products annually, contends failure to appraise demand carefully is the biggest single

cause of flops. Mr. Coveney tells of a manufacturer who allotted $50,000 to develop a new optical instrument and $5 million to produce it. "After five years, he came to us to find out what was wrong with sales," Mr. Coveney relates. "The answer was simple. There's no market for that kind of instrument. We advised him to sell off his patents and give up."

Market researchers claim they often can determine the size of the market for a product and in addition can help steer firms to the right choice of name, package and advertising. But manufacturers frequently shy away from such market studies. Some are reluctant to expose new ideas to public testing because they want to keep their plans from competitors. Others lack confidence in samplings of consumer tastes.

Explaining Philco's decision not to pre-test Predicta styling, Mr. Allen, the vice president, declares: "The one true test of a product is to price it, put it on the market place and then—and only then—will you get an idea of what the public is buying."

One designer reports consumer surveys have repeatedly shown a strong preference for wide-mouthed catsup bottles that don't require vigorous thumping to get the catsup out. But when bottles with broad openings are placed on supermarket shelves, housewives invariably reject them and reach for the old narrow-mouth bottles.

The Pill That Failed

Additional evidence that consumer research isn't foolproof is provided by the story of Bristol-Myers Co.'s Analoze, a combination analgesic, or pain killer, and antacid, or stomach sweetener. The executives who conceived the product a few years ago were impressed by the fact that Americans were gulping record quantities of analgesics such as Bufferin and Anacin. Since this was true, they reasoned, wouldn't an analgesic that could be taken without water have a ready market? Mindful of the success of antacids such as Tums and Rollaids, they later decided to make Analoze a combination tablet.

The company's laboratories came up with the desired product—a cherry-flavored combination tablet. Working with Young & Rubicam, a New York advertising agency, Bristol-Myers submitted samples of Analoze and competing products to a consumer panel. The verdict: Panel members overwhelmingly preferred Analoze.

Young & Rubicam copy writers then developed ads boosting Analoze as the combination analgesic-antacid that "works without water." Tests showed the ads had strong impact. Bristol-Myers also was confident that the package was well designed and that the price—eight tablets for 35 cents, slightly higher than competing products—was right in view of Analoze's reputed advantages.

Backed by heavy advertising outlays, Analoze moved into test markets —Denver, Memphis, Phoenix and Omaha. Dealers were enthusiastic, and prospects appeared bright. Then the sales results began to trickle in. De-

spite all the careful preparations, the public was buying only small quantities of Analoze. Weeks went by with no improvement, and Bristol-Myers glumly withdrew Analoze from the test markets.

Finding the Flaw

What happened? After months of post-mortem probing, it was concluded that the fatal flaw was the "works without water" feature. Headache sufferers, so the theory ran, unconsciously associated water with a cure and consequently had no confidence in a tablet that dissolved in the mouth.

A market study also led General Mills, Inc., astray when it launched its meringue mix in the fall of 1958. Polls of housewives had shown they were eager to buy a powder which, among other conveniences, eliminated the egg yolks always left over in the making of meringue, a blend of egg whites and sugar. But after spending "several hundred thousand dollars" on magazine and TV advertising, the company reluctantly concluded housewives have perfectly good uses for left-over egg yolks and don't mind whipping up meringue ingredients themselves. Sales never attained a profitable level, and General Mills dropped the mix last summer.

Another big food processor, General Foods Corp., took a more spectacular tumble with its Gourmet Foods line, introduced in the summer of 1957. General Foods' decision to sell high-priced, fancy foods was based mainly on a careful study of the competition in the field. "We found literally hundreds of producers of fine foods, but no producer with a comprehensive line under one label," says a General Foods executive. Most of the companies were small, and "both distribution and marketing techniques seemed primitive." In short, says the company official, there appeared to be "a clear opportunity for an aggressive marketer to do a real merchandising and selling job in a relatively uncrowded field."

Biscuits and Lingonberries

General Foods scouts sampled unusual and expensive foods from many countries, and the company put together a product line that included imported biscuits and Swedish lingonberries. The company first tried marketing the line in specialty and department stores, and later it experimented with supermarket sales and reduced prices and with mail order sales. None of these tactics were successful, however, and General Foods recently dropped the Gourmet line.

One marketing analyst's theory: Gourmets in search of unusual, exotic foods shied away from products turned out by a big, well-known American company such as General Foods.

An ad campaign that miscarries or a name that doesn't strike quite the right note can sometimes play a major role in the downfall of a product. Most marketing authorities consider these factors largely the troubles that have beset Hit Parade cigarets, which was American Tobacco Co.'s first entry in the filter tip market.

According to a survey conducted by Brown & Williamson Tobacco Co., a competitor, American poured $40 million into Hit Parade advertising and promotion during the three years following the introduction of the cigaret in late 1956. While American labels this estimate "much too high," it's known the company paid over $17 million for air time and publication space alone during those years.

Slipping Sales

At first, Hit Parade responded to the advertising hypo. Harry M. Wootten, tobacco industry analyst, estimates that distribution totaled 4.5 billion cigarets in 1957, the first complete marketing year; there's no breakdown, however, on how many of these were given away for promotional purposes and how many were sold. But in 1958 the total dropped to 3.2 billion, and last year, after American cut off the flow of advertising dollars, a relatively insignificant number of Hit Parades—500 million—were distributed.

Advertising executives suggest American got its new filter smoke off to a bad start when it chose the name Hit Parade. Later research showed the rock 'n' roll takeover of the TV program of the same name, which was sponsored by American, soured many smokers on the cigaret. Some adult smokers also told pollsters they thought it was morally wrong to associate a program for adolescents with a cigaret. Moreover, the adolescent aura surrounding the cigaret bothered people worried about the possible relationship between smoking and lung cancer; they indicated they felt Hit Parades weren't "mature" enough to assure a safe smoke. Public confidence in the cigaret was further weakened by a July, 1957, Reader's Digest article ranking Hit Parade high in tar and nicotine. Though ad men say the Digest article was a serious blow to Hit Parade, they argue the blow could have been overcome if the cigaret had not been faced by its other problems. They cite the case of L&M, which the Digest rated higher in nicotine and tars than Hit Parade. L&M's sales last year were up nearly 37% from the level of 1956, the year before the article appeared.

Hit Parade advertising did little to improve the cigaret's image, ad men now agree. The first magazine ad, which pictured a group of adult smokers performing a variety of contorted dance steps, drew this acid comment from Advertising Age, a trade publication: "We have seldom seen so unfortunate an advertisement featuring a cigaret with so unfortunate a name in so dismal a fashion." Advertising Age went on to predict "a most difficult future" for Hit Parade.

Word-of-mouth criticism is sometimes enough to eliminate a new product, according to B. F. Michtom, chairman of Ideal Toy Corp. This was the case with an Ideal doll which was sold along with a supply of cosmetics. Little girls from three to five would love to daub lipstick and eyebrow make-up on the doll's face, Ideal reasoned.

As it turned out, little girls did enjoy smearing the cosmetics on the

dolls. But they also thought it was fun to apply them to wallpaper, floors and drapes, and this diversion was not appreciated by mothers. Their adverse comments caused demand to plummet, and the company had to drop the cosmetic doll after selling a relatively small number. Mr. Michtom figures the company lost $200,000 on the product.

17

Zenith Bucks the Trend*

BY RICHARD HAMMER

For a company moving up fast in the electronics field, Zenith Radio Corp. seems as out of place as an old-fashioned hand-entry ledger in a modern data-processing system. It operates mainly out of three unprepossessing factory buildings in northwest Chicago. Only about 1 per cent of its business is in defense contracts, and it has had nothing to do with those exotic technical developments for which the space age has created such spectacular demand. Zenith has stuck doggedly to familiar household products whose total U.S. market has barely held its own in recent years: television sets and radios. By capturing an ever rising share of this static consumer market, Zenith has managed just about to double sales, from $141 million (including excise taxes) in 1956 to an expected $280 million this year.

Zenith has scored its most notable triumph in TV sets, which now account for an estimated 65 per cent of its sales. In 1956 the company ranked fifth or sixth among set manufacturers; it sold 460,000 sets, or 6 per cent of the 7,350,000 sold in the U.S. By 1959, Zenith had nosed ahead of R.C.A. and had taken first place, with over 1,100,000 sets, or 18 per cent of the industry's total, which had fallen to 6,278,000. Since Zenith's prices are slightly above the industry average, its dollar volume, $170 million, was 19 per cent of the total. This year, while the total TV market is declining to an estimated 5,850,000 sets, Zenith's sales are rising once more and so is its share of the market. Meanwhile, Zenith has extended its already strong position in home radios, both AM and FM.

Zenith's achievement is all the more striking in that it is not the result of technical pioneering. The company was indeed a pioneer in the early days of radio, but recently it has, if anything, been slow to accept innova-

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tion: it was a late starter, for instance, in television. Zenith, leaving expensive research to others, has capitalized mainly on homely virtues. It has zealously emphasized quality in manufacture and sold consumers on the idea that its products are worth higher prices. It has been uncommonly successful at measuring its market and carefully adjusting production to expected sales, with the result that profits have been steadily pushing upward. After-tax earnings increased from $6,179,000 in 1956 to $16,630,000 last year, when they amounted to 6.4 per cent on total sales and 20.9 per cent on net worth. None of Zenith's major competitors, which include R.C.A., G.E., Motorola, and Philco, can match this overall profit showing, although each has been diversifying into more profitable markets.

How long Zenith can continue flourishing while flouting all the rules of the electronics game is a question that gives the company's management plenty to think about. Zenith is traveling largely on the momentum imparted by two forceful personalities who belong to its past rather than its future. Commander Eugene F. McDonald Jr., its brilliant though somewhat erratic founder, died two and half years ago. Hugh Robertson, who was McDonald's closest associate for many years, is currently chairman and chief executive officer, but at seventy-three he is no longer so active as he once was. The new generation of management is headed by Joseph Wright, a forty-nine-year-old lawyer who became president after serving as Zenith's counsel and executive vice president.

Although the well-tested policies of McDonald and Robertson are bringing in greater profits than ever, Wright is looking around for places where Zenith can break new ground. With the whole electronics industry facing uncertain transition (see "The Coming Shakeout in Electronics," *Fortune*, August, 1960), the greatest risk may be in standing pat. Consequently Zenith, which has invested some $12 million over the years in pay-television, a potential of as yet unknown dimensions is now engaged in an all-out effort to put it across. Moreover, the company is venturing cautiously away from its exclusive dependence on the consumer electronics market and into military and industrial electronics. The gamble on diversification, a complete break with company tradition, will depend both on the ability of Zenith research laboratories to come up with profitable new products and on Wright's success in acquiring companies with marketable lines.

But regardless of what new courses it charts, Zenith's hopes for the immediate future will rest mainly on the acumen it displays in bucking the downward trend in television. The period of the company's most significant growth has coincided almost exactly with the time when fewer Americans were buying new TV sets. How did Zenith do it?

The boom in TV sets came to an abrupt end in the mid-Fifties. As the bottom fell out of the market, panic swept over a large part of the industry. Prices fell, and to make ends meet some manufacturers began

sacrificing quality, equipping their sets with poorer components, ignoring styling. The public reacted adversely, and inventories began to pile up. Sets were dumped on the market at lower and lower prices.

Zenith adroitly turned the resulting situation to its own advantage. It had always had a reputation for making quality products. Now it set out to exploit this reputation more actively. In 1956, Zenith's advertising budget was stepped up about 20 per cent and a new line of "decorator" cabinets was introduced. Says Leonard Truesdell, executive vice president for marketing and also president of Zenith Sales Corp., "We just walked away with the business."

Because its sets were easier to service, Zenith won the good will of repairmen. One reason was that while competitors converted to printed electronic circuits, Zenith stayed with the conventional wired chassis. The printed circuit for commercial products can be made by an automated process and is a money and space saver. But till recently it was full of bugs and, when breakdowns occurred, often had to be replaced. The wired circuit, more expensive to make because it requires more labor, is simpler to repair since defects can be easily located. Repairmen who pointed this out recruited customers for Zenith.

The vice president of one of Zenith's major competitors gracefully acknowledges that "Quality is a fetish around there." From the beginning to the end of the manufacturing process, inspectors (who comprise one-sixth of the production force) continually check sets to make sure everything functions perfectly. Even when the finished sets are ready to be shipped, some are pulled off the loading platforms, unpacked, and returned to testing rooms for more inspection. "I think every damned person around here wants to get in on the inspection act," says Gene Anderson, Zenith's vice president for purchasing. "Everybody is an inspector, everyone is a quality expert. I go around to my side door so someone doesn't ask me why my front door has a scratch on it."

Zenith did not hesitate to pass on to its customers the cost of quality. Its retail prices now average $3 more on table and portable TV sets than those of its competitors and $10 more on console models. It has always been Zenith's theory that the customer forgets pretty quickly what he paid for something, but he never forgets what he got for his money. This theory received further confirmation when Zenith introduced its "Space Command," a remote-control unit operated by ultrasonic waves. Although it added about $60 to the retail price of a set, its introduction boosted sales. Today one out of every four sets Zenith sells is equipped with Space Command.

How to Keep Dealers Happy

While its market was broadening, Zenith widened its profit margins by keeping production delicately attuned to demand. Zenith tightly controls its inventory and shipments, enabling its 20,000 dealers to sell at

good markups even during periods of slack demand. Leonard Truesdell, whose finger is on the control lever, explains how it works: "I get figures every week on the sales of every model every distributor made to every dealer and what we shipped to every distributor. I watch trends so we don't perpetuate any errors. It takes constant watching. The Electronic Industries Association sends weekly inventory reports to everyone in the industry. The day they come out I take them home with me. It's what you do with them that counts, and we do something with them."

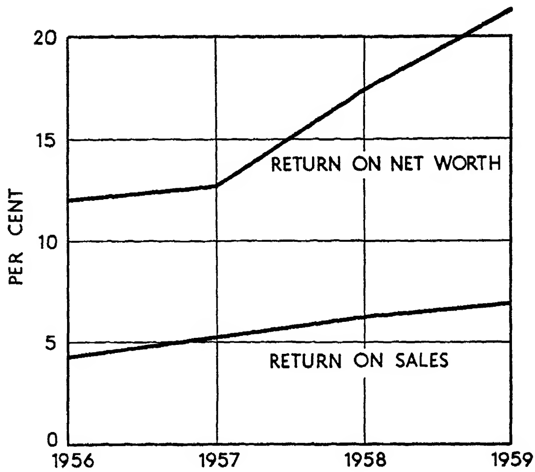
At the end of August, the television industry as a whole had piled up a fifteen-week supply of sets at manufacturers' and distributors' levels. Zenith had a mere four-and-a-half-week supply. Its inventory in the factory was only 1.2 per cent of the industry's total. At the end of any television model year, according to Truesdell, Zenith never has more than 1,000 sets left unsold in the factory, and its distributors have less than 1 per cent of the entire industry's distributor inventory.

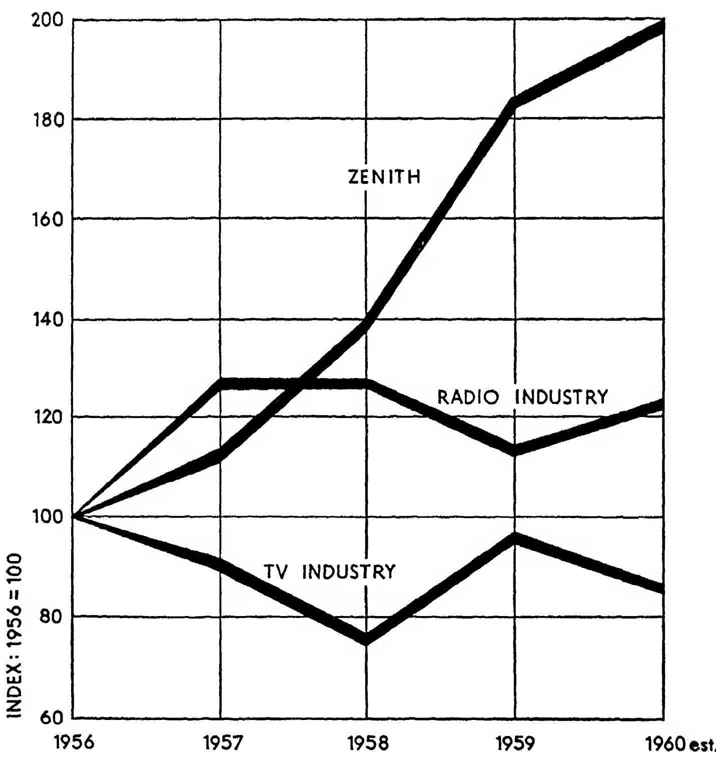
At one time, Zenith manufactured only on order, but growth made such rigidity impossible. Now inventory control is more flexible and more scientific. When a new line is introduced, production schedules are released for three months. After a couple of months dealer and consumer reaction to the line has emerged and future production schedules can be set, but none is set more than three months in advance. These schedules are never frozen solid; they can be modified up or down each week by as much as 20 to 25 per cent. As a result of this precise planning, Zenith's inventory turns over once a month.

The Triumvirate

The tactics that enabled Zenith to climb to the top in television were set during the company's early days in radio, and they are part of the fruitful legacy left by its late founder. Eugene McDonald had had a successful auto-finance business in Chicago and was looking around for something else when he listened to a radio on New Year's Eve, 1920. Entranced by the new medium, he tried to buy a radio. When he was told he would have to wait months for delivery, he decided to get into the business himself. This was not easy. In order to build radios, he had to have a license to use the inventions of Major Edwin H. Armstrong, and these licenses were hard to come by. So McDonald looked around for a manufacturer that was already licensed. He found the Chicago Radio Laboratory, owned by two young radio mechanics, R. H. G. Matthews and Karl Hassel (now secretary of Zenith), who were turning out a radio a day. They needed money and were ready to listen to an offer. Since the Armstrong licenses were not transferable, McDonald founded Zenith Radio Corp. in 1923 to act as the exclusive sales-and-marketing agent for the radios made by Chicago Radio Laboratory. Later the two companies were combined.

McDonald effectively impressed on his workers what they considered





Zenith's Feat: Higher Sales—and Higher Profits—in a Static Industry

Since 1956, industry-wide sales of home radios and television sets have had their ups and downs, as the chart above shows. In the past four years home-radio sales increased from $188 million to an estimated $230 million, while sales of television sets fell from $934 million to an estimated $820 million. Approximately 81 per cent of Zenith's business is in these two markets, yet its total sales have about doubled, from $141 million to an expected $280 million this year. And (chart above) after-tax earnings have more than kept pace, rising from $6,200,000 in 1956

a mania for quality. "If one out of a hundred sets had something wrong with it," an old-timer at Zenith remembers, "the Commander was sure to find that one, and then all hell would break loose." By 1925, McDonald had formed the triumvirate that was to run Zenith for nearly three decades. In 1924 he hired Hugh Robertson, a young, Scottish-born financial expert, as office manager. The next year a young engineer, the late G. E. Gustafson (who died in 1958, within weeks of McDonald), joined the engineering department. Soon afterward, the pattern was fixed: Gustafson made the products, McDonald sold them and provided the creative imagination, and Hugh Robertson kept the company solvent with his ultraconservative financial policy and day-to-day management.

Zenith badly needed a dose of Robertson's restraint. "When I came here in 1924," he recalls, "we had no control. We just built a lot of radio sets and hoped the salesman would sell 'em." Soon Zenith had tremendous inventories and was heavily in debt. Its creditors bore down hard, and receivership was almost inevitable until the banks gave Robertson a chance to take over financial control and try to put things in order. He quickly succeeded. On his instructions, Zenith built radios only when it had firm orders in hand; and sometimes Robertson would refuse to fill an order when he felt a distributor was overbuying. As a result, neither Zenith nor its distributors and dealers were ever caught heavily overstocked. As Robertson relates it, "Came Christmas, I made pretty sure we swept the place out. One year the boys apologized because we had six sets left." Because its dealers could make reasonable profits, Zenith had no trouble getting enough distribution outlets. In practically every town in the U.S. with a population of more than 2,500 there was a Zenith dealer.

From radios, Zenith branched out into the related field of phonographs, and in the 1940's it became the biggest U.S. manufacturer of hearing aids. As the result of an automobile accident, McDonald had lost the hearing in one ear. When he set out to buy an aid one day in 1940, he found that he had to pay $150 to $200 for what was really only a small portion of a radio. "Hell," he said, "I can build a radio for $19. By golly, this must be some business." He put his engineers to work and by 1943 was selling a unit for $40. It caught on overnight, and today Zenith, with about a $15-million annual volume, has about 30 per cent of the hearing-aid market.

Where McDonald Was Wrong

But McDonald, a single-minded man, resisted diversification. "There's nobody who makes everything who's the leader in anything," he once said. When he committed himself to an idea it took a long time—and much persistent advice by his associates—to persuade him to drop it. And sometimes persuasion failed.

After the war, he kept Zenith's defense contracts to a minimum because he was convinced that work for the government would hamper the com-

pany's commercial development, and that Zenith could earn far more money in the consumer market. Later, when the expanding military electronics market spurred the rapid growth of other firms, McDonald's objection lost some of its validity, but he adhered to it despite some pressure from within the company to get into this field.

His rigid attitude almost caused Zenith to miss out on television. Zenith had been experimenting with television for some years, and had been operating a Chicago station since the late-1930's. But by the time television was about to be introduced on a large scale, McDonald had two important differences with the majority of the industry. First, he held that television could be successful only if it were supported by viewers' subscriptions rather than advertising. To this day, Zenith has led the fight for pay-TV. The second difference, and the one that did most to delay Zenith's entrance into television, arose from McDonald's conviction that broadcasting channels ought to be in the ultra-high-frequency wave lengths where overlap was eliminated and a greater number of stations could be accommodated. But UHF still needed a year's development and other manufacturers were anxious to get going with very high frequency. When VHF won out, McDonald remained aloof from TV until pressure from dealers forced him to reconsider. Although the case for UHF was a good one, McDonald's single-minded insistence hurt Zenith. The company entered the TV market over a year after its competitors.

Into Battle with R.C.A.

When it finally did so, it found itself in another round of its long and bitter struggle with R.C.A. The first engagement had been fought over FM radio. When FM's inventor, Major Armstrong, broke with R.C.A., he worked with Zenith to design sets. For a time Zenith was among the few in championing FM against considerable opposition, much of it from R.C.A., and in 1940 Zenith built an FM station in Chicago, which is the oldest in continuous operation. Now that FM has finally become a success, Zenith has reaped the rewards of its early and persistent drive. This year about 40 per cent of the estimated 550,000 FM sets sold will be Zenith's.

The biggest battle developed over Zenith's challenge to the R.C.A. patent pool. When the pool began to grant licenses to others in 1926, Zenith was one of the first to take one out. By 1946, contending that all of the basic patents had either expired or were about to expire, McDonald balked at signing up for another eight years. When R.C.A. threatened to sue for patent infringement, McDonald filed a suit of his own against three of the controlling interests in the pool—R.C.A., General Electric, and Western Electric—charging that many of the patents were not valid and that the pool was in antitrust violation. McDonald wrote an account of an incident that he said occurred at a cocktail

party before the 1946 Gridiron Dinner in Washington, about the time the suit was to be filed. Niles Trammell, then president of N.B.C., told him he was making a big mistake, for if it came to an open fight with R.C.A., "You are going to be licked and licked so badly that Zenith will lose the position it now occupies." Soon after this incident R.C.A. went ahead with its suit against Zenith.

Both suits went into a Delaware court, which decided to consider the patent aspects first. R.C.A. proceeded to bring in a number of patents, charging infringement. During the pretrial period, Zenith showed "prior art" in some instances, and R.C.A. also brought in additional charges of infringement. In all, R.C.A. brought in complaints relating to sixty-four separate patents.

The Delaware case dragged on for eleven years. Meanwhile McDonald made his belated decision to put Zenith into television. Patents on picture tubes were part of the pool, and he feared that tube manufacturers licensed by the pool might not want to deal with him in view of his troubles with R.C.A. So in 1948 Zenith bought a tube-making company of its own, Rauland Corp., which eventually turned out to be a profitable subsidiary. The merger provoked R.C.A. to bring suit against Zenith and Rauland in the U.S. district court in Illinois, charging infringement of TV-tube patents.

Zenith's answer was a counterclaim accusing R.C.A., Western Electric, G.E., and a number of other companies of dividing up world markets in radio and TV sets and other electronic equipment, and blocking Zenith from foreign operations. Zenith asked treble damages of $60 million. R.C.A. employed a variety of legal maneuvers, including an appeal to the Supreme Court, to keep Zenith's suit from being considered before the Delaware case was decided. But all efforts failed, and the Illinois case went into "pretrial discovery." After Zenith questioned R.C.A.'s chairman, Brigadier General David Sarnoff, for six days, R.C.A. kept McDonald on the stand for twenty days and Hugh Robertson for twenty-five. No less than 25,000 pages of testimony were taken.

International Melodrama

The pretrial hearings had been under way a few months when Thomas McConnell, Zenith's trial lawyer, had an inspiration. If, as Zenith charged, R.C.A. was engaged with other companies in dividing up foreign markets, their commercial arrangements had to be translated into language an ordinary salesman could understand, so that he would know where and what he could sell. Somewhere, McConnell was convinced, there was paper evidence to prove Zenith's case. Knowing how meticulous European businessmen are about keeping records, he suspected he could find what he wanted if he could only look into the files of R.C.A.'s international division. McConnell obtained a court order from Judge Igoe of the Illinois district court requiring R.C.A.

to open its files in London. Zenith then learned that the pertinent files had been shipped to an R.C.A. subsidiary in Switzerland, and it had to go back to Judge Igoe for another order compelling R.C.A. to return the documents immediately to England.

Finally, one Saturday morning in the summer of 1955, a Zenith lawyer, Philip Curtis, arrived in London to look at the files, which had just been returned from Switzerland. At the offices of R.C.A.'s solicitors he found a room loaded with crates crammed with documents. He later recounted, "Another lawyer and I stayed with them until I could get them to the American Embassy, where a Marine guard was put on them." After this melodrama, Curtis examined the mass of papers and said he found the evidence Zenith had been looking for.

A second, and unexpected, break came for Zenith a year later, during the pretrial testimony of General Electric's general counsel, Ray Luebbe. When Zenith had ceased to be a licensee of the R.C.A. patent pool, it had gone to General Electric for a license to some patents that company owned, and had been turned down. Joseph Wright, then Zenith's general counsel, asked Luebbe if anyone at General Electric had ever talked to anyone at R.C.A. about whether to license anyone separately under the G.E. patents. To Wright's astonishment, Luebbe replied, "Yes." Wright then asked, "Who?" In 1946, answered Luebbe, he had been present at a meeting with Philip Reed, then chairman of G.E., and Sarnoff. Sarnoff had told Reed that it would be unfair for General Electric to grant a license to Philco (which was also seeking a separate licensing arrangement at the time) because it "would undercut R.C.A.'s licensing situation." R.C.A. has flatly denied any attempt to dissuade G.E. from licensing anyone.

A Historic Agreement

Zenith felt that it had powerful ammunition for its Illinois suit. But as the case approached trial in the summer of 1957, Philip Reed, carrying peace overtures, flew out to see McDonald, who was vacationing at Mackinac Island. The day before the trial was to begin, a settlement was reached, ending both the Delaware and the Illinois cases.

In terms of the money involved, it was one of the largest antitrust settlements in history. It wiped out most of R.C.A.'s claims on Zenith for back royalties on patents, and provided for arbitration of the remaining claims. The limits set for the arbitration (which is still going on) provided that Zenith must pay R.C.A. anywhere from a minimum of $700,000 to a maximum of $3 million. Zenith and R.C.A. agreed to exchange royalty-free licenses, until January 1, 1963, on all radio, TV, and phonograph patents then in effect, except for color-television and pay-television equipment. Furthermore, Zenith got a cash settlement of $10 million—$4,800,000 from R.C.A., $3 million from General Electric,

and $2,200,000 from Western Electric—to be paid in ten $1-million annual installments.

Since the settlement, Zenith says it has been able to sell abroad without harassment. And implicitly the settlement ended the R.C.A. patent pool so far as home radios, black-and-white TV, and phonographs are concerned.

One of the most constructive results of the suit on Zenith was to place it in a position where it had to engage seriously in research instead of riding along on the patent pool. Space Command, a circuit called "fringe-lock," and an electron-beam parametric amplifier are among the fruits of Zenith's recent effort.

A Break with the Past

McDonald considered the outcome of the long drawn-out legal struggle the biggest victory of his life, especially satisfying since it was scored over his great rival, General Sarnoff. But McDonald was not to savor triumph long. In May, 1958, he died of cancer, at the age of seventy-two. A competitor predicted, "As time goes on Zenith will miss McDonald more and more. I think the momentum carrying them is the years of preparation on the part of McDonald."

But several years before he died, McDonald had taken steps to leave the company more than momentum. He and Robertson had brought in younger men and were grooming them to take over. In 1952, McDonald had asked his good friend former Senator Burton K. Wheeler to recommend a lawyer to reinforce Zenith's legal staff in the suit against R.C.A. Wheeler had recommended his former secretary, Joseph Wright, then an attorney with the Federal Trade Commission. McDonald and Robertson soon saw in Wright the potentials of a top executive, and they gradually weaned him away from the legal side. In 1957, Wright became executive vice president, and a year later, president. "When the Commander died," says Robertson, "I decided the thing for me to do was to be chairman of the board and give Mr. Wright a bath in what it was going to be like."

Robertson has delegated much of the day-to-day operation and a good deal of the policy direction to Wright. Directly under Wright is Sam Kaplan, fifty-two, the executive vice president, treasurer, and assistant general manager. Kaplan joined Zenith as an office boy in 1923 at the age of sixteen. While working his way up through the company, he managed to graduate from Northwestern University. Like Robertson, he dreads debt. Zenith has not owed anybody a cent since it repaid its last short-term borrowing in 1953. All its expansion has been financed out of accumulated surplus, current earnings, and the payments under the R.C.A. settlement. Kaplan intends to continue the policy.

But Wright and Kaplan lost no time breaking with other company precedents. Soon after McDonald's death they began looking for military and industrial business. "The whole consumer electronics business is

only 20 per cent of the entire industry," says Kaplan. "If we can become only mildly important in other areas, we can add a strong and desirable factor to our business."

Zenith will be entering the military electronics field at just the time when other firms are trying to lessen their dependence on it. But Zenith's reasoning is that by getting into sophisticated electronics it will be able to attract more first-rate scientists and to build a reputation for research, which it has never had in the past. And there is a good chance that the research will develop promising new commercial products to bolster the company in the nonmilitary field.

As part of its new approach, Zenith has set up a research subsidiary in Menlo Park, California, and it is giving still more backing to a small group of its scientists investigating solid-state physics in Chicago. At the moment, Zenith's bid for government business rests on an electron-beam parametric amplifier that vastly increases the range of radar. This device was developed by the company's associate research director, Dr. Robert Adler.

But most of the $300-million military and industrial volume Wright expects to build up by 1970 will come from outside acquisitions. Recently Zenith bought Central Electronics, a small company that makes equipment for single sideband broadcasting, a specialized radio field with some growth possibilities. Now Wright is looking over other small firms in various specialized electronics fields that are not yet overcrowded and fiercely competitive. But, he cautions, "the prices of some of these companies are fifty to a hundred times earnings, and I'd hate to wake up in three years and have to explain to stockholders why I did it."

A Front-Runner's Problems

Zenith expects its consumer business to continue booming, but it is aware of certain hazards that go with being the front-runner. Largely as a result of Zenith's success, the whole television industry has become quality-conscious, and the competition is getting rougher. Also, as Zenith increases its volume, some of its TV sets and radios are finding their way into the hands of discount operators. "You have to sell them," says Robertson; "they sell more sets than the big stores downtown." This makes for unhappiness among Zenith's regular dealers.

Moreover, Zenith's reputation for quality is becoming more difficult to protect because its competitors are alert to point out the slightest lapse. An executive in one rival firm noted recently, "They put out a lousy FM table model set for $49.95. McDonald would never have let them put the Zenith label on it. And their stereo line last January had no performance —they put all this jazz on the outside and nothing on the inside." As this competitor admits, these are isolated instances, but they are bound to be a cause for concern at Zenith.

Thus as a new management begins to take hold, Zenith is facing new

challenges. It is still growing and reaping profits from the drive and imagination of its late founder. McDonald's powerful personality remains a palpable influence in the company. But Zenith's future now depends on its ability to generate new ideas and new drive to meet conditions that McDonald never anticipated.

18 Who Gets the Ladies in the Man-Tailored Shirts?*

Lady Manhattan gets most of them—with a brand new market in the deal for The Manhattan Shirt Co. Of course, there may be some headaches, adjusting to the women's wear field, but, as is usually the case, winning the ladies makes it worth it.

If you are a manufacturer of products traditionally used by men—razors, pipes, or tailored sleepware—you may have discovered that women have been appropriating more and more of their husbands' accessories.

A revolution between the sexes? Perhaps. But more significantly it represents discovery of a new market—an opportunity for manufacturers who have been limited in their efforts to diversify.

There are strong risks and problems for the manufacturer of men's items who decides to produce a similar line for females. Differences in styling, promotion and distribution all make the decision a bold one.

The Manhattan Shirt Co. faced this dilemma several years ago. It was a drastic step for a manufacturer which has been in the men's wear field exclusively for almost a century, to start making a product for women, but Manhattan took it. Despite the difficulties, the decision proved to be a wise one. James O'Shields, vice president and general manager of the Lady Manhattan Division (through which women's shirts and sportswear are sold) has announced that sales for the last six months of 1959 were 50% above those for the same period in 1958; and spring orders are running better than 50% ahead of the same period last year.

It all began in March 1953, when Manhattan's board of directors discussed the possibilities of diversification. Several members suggested entering the boys' wear field. "If you start them early with Manhattan," they reasoned, "they'll be customers when they are adults." Cluett Pea-

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body, maker of "Arrow" men's wear and the firm's largest competitor, had entered the boys' wear field in 1952 and was reported to have won good retail and consumer acceptance in that market.

But one of the board members was violently opposed to such a move. Louis C. Stengel, Jr., then Manhattan's sales manager (now president), had studied the boys' wear market and knew that the majority of boys' items were sold through retail outlets that were not in Manhattan's volume market, and that their price lines were too low to allow Manhattan any sizable profit margin. He felt, too, that the record of boys' wear as an industry was not one of financial strength. Stengel was not opposed to diversification, but only to entering the boys' wear field. After a long discussion, the board decided to seek other channels for diversification.

About that time Cone Mills had developed the first Dacron and cotton wash and wear fabric for men's shirts. This was a basket-weave oxford which they planned to put on the "prestige" market through Brooks Brothers of New York. But Cone Mills was weaving too much yardage of the new product for Brooks Brothers to absorb alone, and decided to have one top-brand shirt manufacturer handle the sales of Dacron and cotton shirting in the national men's wear market. The Manhattan Shirt Co. was chosen, partly because of its pioneering in wash and wear nylon, Dacron and Orlon; and partly because of its reputation for quality in the men's wear field. So in the fall of 1953, Manhattan was the first men's wear manufacturer to bring Dacron and cotton wash and wear to the public—in shirts, pajamas, underwear and sportswear.

That same season Sales Manager Stengel decided to offer a limited quantity of Dacron and cotton items. This was the period of the "Little Boy Look" in women's shirts, so Manhattan copied one of its men's shirts in a button-down model with shirt tails—but in women's sizes, priced at $8.95. The result was a complete sellout. One firm in San Francisco sold its allotment of 60 dozen shirts within a week!

After this brief experience in ladies' wear, Manhattan's management was sure that this was the ideal direction in which to diversify. The following season O'Shields, who had headed up Manhattan's neckwear and handkerchief departments, was reassigned as head of the newly formed Lady Manhattan Division.

With a new product designed for a new market, and with volume growing rapidly, there were accompanying problems. Their solution entailed operating the new division as a separate entity, not only with its own sales manager, but with its own sales staff, and with sales procedures quite different from those used in marketing Manhattan shirts for men. "In changing our marketing strategy," says O'Shields, "we could not have succeeded if we had not adapted ourselves to the requirements of the women's wear field."

The steps necessary in diversifying to women's wear included the following:

1. The Lady Manhattan Division was given its own order and shipping departments, its own warehouse and sales force. This was necessary for several reasons. If orders and shipping had been handled along with the bulk of the business, they might have been swallowed up, since the men's shirt department is so much larger and older. "And in the women's fashion world you have to move fast, much faster than in men's wear," says O'Shields.

Though the salesmen for the men's line had helped to launch the Lady Manhattan, they were too busy with men's wear sales to continue selling the "Lady" line on a large scale. Besides, a different type of salesmanship is required for the two lines. "In talking to buyers of women's fashions you use a different vocabulary," says O'Shields. "You have to present the 'romance' of fashion and colors, to be more adventurous, and be willing to accept crazy mixtures of colors. You have to know about silhouettes. You have to be amenable to change. Men's wear is more stable, changing little from year to year. Women's fashions change from season to season, and even faster."

2. As a step toward establishing its own identity, Lady Manhattan moved to 1407 Broadway, with an entrance at 533 Seventh Ave., leaving the uptown office at 444 Madison. "The women's wear industry is centered on Seventh Avenue," says O'Shields. "This building houses hundreds of sportswear showrooms and is convenient to buyers. We could scarcely expect them—especially those from outside New York—to travel uptown to visit one manufacturer, though some of them did so. And it is possible for us to have a more feminine showroom here, more attractive to our customers, the stores' buyers, who are nearly all women."

3. Packaging and terms had to be changed because customs are different in the women's fashion field. For example, terms for men's wear are 3/10 E.O.M., which means 3% discount for paying by the tenth of the month; in the women's field it's 8/10 E.O.M. The method of packaging is different, too. Men's shirts are packaged three or four to the box, and the manufacturer usually distributes colors on the basis of what seems to be a salable assortment; it might be one blue, one gray and one green shirt in a box. After a year of headaches from using that system in selling Lady Manhattan, the company adopted the standard plan of packing one shirt to each box, and of shipping the particular colors the buyers specify.

For some time before Manhattan made their first Dacron-cotton women's shirts, women in many parts of the country had been buying men's shirts for themselves. This required no "selling" on the part of the stores' staffs. But when stores began to carry Lady Manhattans, salesmanship of a better-than-average quality was needed, since quite a bit of information was necessary before some prospects would become customers.

To supply this need, Manhattan conducts training sessions when opening new accounts. These are usually breakfasts or small dinners for sales personnel held before or after store hours. "Using easel charts," O'Shields recounts, "our salesmen describe the sales points of our products, such as the long shirt tails, the stitching—which is different from that used for women's blouses, the die-cut collars, the lack of darts. Some of our shirts have a feminine look, and some, such as our 'Sissy' shirts, are actually lace-trimmed. But we don't go in for adornments such as the jeweled neckline. All these things must be explained to shoppers, and sales people have to know them first."

Something else borrowed from the men's wear industry is the "sold as packaged" policy. Though one shirt in each size is kept out for trying on, women who have previously bought Lady Manhattans rarely try them on. They pick up the packaged shirt, knowing sizes are uniform—and take it away. (The company has just changed its Lady Manhattan box from a patterned green monotone to a charcoal gray with the brand name in white script. The new package is more elegant and feminine).

"Our customers are always looking for something new," says O'Shields. "They are keenly promotion-conscious. They like go-togethers, or co-ordinates. By widening our line, we make it possible for them to sell not just a shirt, but a shirt plus a skirt, or a shirt with shorts. Another popular feature we've introduced is our 'Always Availables.' We have about 15 styles that are always in stock, for reorders."

The Lady Manhattan staff of 20 salesmen all work out of the main office under Sales Manager Robert Mitchell. They are paid salaries and commissions against drawing accounts. They have their own cars and do a great deal of traveling, "about 48 weeks out of the year," says O'Shields.

Manhattan does not go in for cooperative advertising, but furnishes mats and other dealer aids to stores. Probably the most widely used is a nameplate counter unit with the Lady Manhattan logotype, which reinforces the buyer's association of the product with the brand.

Six years after it was first created, the Lady Manhattan Division has national distribution in hundreds of fine stores, and has expanded its line to include skirts and shorts. It advertises in such publications as Harper's Bazaar, Vogue, Mademoiselle, Seventeen, The New York Times Sunday Magazine, and The New Yorker.

Manhattan won't tell what percentage of its total $39-million yearly volume is in shirts for women, but it is acknowledged as making a sizable contribution. The "Lady" price range is from $5 to $14.95, the higher price for silk shirts. Biggest volume is in the $5 to $7.95 range, and many in the trade say that the firm's $5-Dacron and cotton shirt is the best value in the market today.

Faith in the future is expressed by the division's Vice President O'Shields, in plans for continuous expansion: "Sixty per cent of all women's wear today is in spectator sportswear—shirts, pants, sweaters, jackets, skirts; and we're going after as big a slice of this market as we can capture."

Among Cluett Peabody, Manhattan, and Phillips-Van Heusen—the Big Three manufacturers of men's shirts—only Manhattan carries the new line of women's shirts. Two other manufacturers who have entered the women's shirt field are Marlboro and Hathaway, but neither approaches Manhattan in volume.

The current vogue for separates (shirts with skirts or pants) is in Lady Manhattan's favor. "The demand for man-tailored shirts is rising, and it

new products, we plan to capture a larger and larger share of the market which comprises 60% of all women's apparel sales."

19 United Fruit Turns Merchandiser*

For more than half a century, United Fruit Co. has based its leadership in the world banana market more on its production than on its marketing skills—though it has long been the world's largest seller as well as producer and carrier of bananas.

Now a new management, headed by Pres. Thomas E. Sunderland is shifting that emphasis. By selling or leasing its Central American banana lands to contract growers, United Fruit is edging out of banana growing—a high-risk business that in recent years has made the land-rich company profit-poor. Ultimately, Sunderland would like the company to get out of agricultural production and become mainly a marketer of a diversified line of food products.

That's a fundamental change of direction for the colossus of the Central American banana plantations. But it's far from the only change that's being made in the venerable Boston company. Under Sunderland, a former oil company executive who started learning the banana business from the top down only 16 months ago, United Fruit is being remade in a new though still somewhat blurred image.

Sunderland is reorganizing United Fruit's management, both in structure and personnel. He is cutting costs all the way down the line; last year, consolidations and other steps to improve efficiency saved more than $5-million. He is experimenting with a different variety of banana and with a variety of new methods—from the use of computers as an aid in decision-making to the boxing of bananas before they leave the tropics.

He is pushing the company's search for new products and new markets. And he is stepping up United Fruit's selling efforts, planning the improvement of its sales force, and a broad advertising campaign to promote both company and products.

I. RIPENING CHANGE

The new United Fruit that is emerging is not solely Sunderland's product, of course. The company has been changing gradually ever

* Reprinted by special permission from *Business Week*, February 25, 1961. Copy-

since the 1951 retirement of Samuel Zemurray, last of the old-time banana men. But change came slowly to stodgy, bureaucratic United Fruit; evolution didn't become revolution until long-simmering problems finally erupted on the profit-and-loss statement. As one former board member comments, "We never realized how radically events had changed our world until our purses were squeezed."

Squeezed they have been. In 1959, United Fruit passed a quarterly dividend for the first time in some 60 years. Sales have been declining steadily from their 1956 peak of nearly $344-million. Profits have been on a much sharper downgrade—and for much longer.

In 1950, on sales of about $312-million, United Fruit earned (before taxes) more than $105-million. On just about the same sales volume in 1959, the company's pre-tax earnings were less than $21-million. Last year, with sales down to about $304-million, pre-tax earnings plummeted to $2,871,000 (of which more than $800,000 was attributable to a change in accounting procedures). Says Sunderland, "The problems that were 15 years in the making hit us full blast in 1960."

Troubles

Those problems are numerous. The banana business isn't what it was, say, before World War II. Costs, particularly labor, have risen. Overproduction has had a devastating effect on prices. United Fruit still has about 60% of the North American market and about 14% of the European one, but competition from Ecuadorean producers by depressing prices has cut deeply into its profits.

United Fruit has had its troubles with the U.S. government. Although the company's dominance of the banana trade is nothing like what it was in the early part of the century (when it had more than 75% of the North American market and more than 65% of Europe's), it drew action by the Justice Dept.'s Antitrust Div. Under a consent decree signed in 1958, United Fruit is out of the banana jobbing business. And by 1966 it must submit a plan for setting up a new competitor about the 1957 size of its chief present competitor, Standard Fruit & Steamship Co.

In Latin America, United Fruit's nearly half-billion dollars' worth of farm lands, forests, railroads, communications systems, ships, mills, warehouses, ports, and self-contained communities have made it the traditional symbol of Yankee "imperialism." Its Latin American nickname is the Octopus. United Fruit is the natural target for Central America's growing nationalism, complicated these days by Castroism (last summer's confiscation of $27-million worth of Cuban sugar land nearly put the company out of the sugar growing business).

Beginnings of New Era

Sunderland's predecessor, Kenneth H. Redmond, was forced to tackle some of these problems, particularly in Latin America. He liberalized

United Fruit's labor policies and tried to improve its public relations in the banana republics. He set up a laboratory for basic research on banana culture and looked around for areas of diversification.

The changes within the company really got going when George P. Gardner, Jr., a young (now 43) investment banker, took over the chairmanship in 1958. He began adding new blood to United Fruit's predominantly Boston Brahmin board. He hired Sunderland away from a job as vice-president and general counsel of Standard Oil Co. (Ind.)

Sunderland was picked at least partly for his extensive antitrust experience. There is conjecture that he may try to reopen the antitrust consent agreement to set up a competitor from United Fruit's own holdings. As a boost to the company's expanded marketing push, he may try to get it back into banana jobbing.

Revamping the Organization

But so far Sunderland has been exercising more of his management than his legal skill. Mostly he's been learning the fruit business. He spent a year "first determining the company's problems, then analyzing them." Now he is beginning to make changes, both in organization and in policy.

Sunderland inherited some two dozen executives reporting directly to him, most of them without very clearly defined duties. When the top-level part of United Fruit's reorganization is completed next month, there will be only a handful.

Operations have been decentralized. An on-the-scene manager for tropical operations and one for European operations have authority to run their own shows. All other major department heads are now headquartered in Boston; formerly some were in New York and New Orleans. And for the first time all now appear on a formal organization chart, with defined areas of responsibility.

Many of Sunderland's executives are new to the company, and many hold newly created jobs. The latest major addition is John M. Fox, former president of the Minute Maid Corp. (now merged with the Coca-Cola Co.), as one of two executive vice-presidents. J. B. Harris, W. R. Grace & Co. Central and South American vice-president, was brought in to head industrial operations and the diversification program. United Fruit is about to set up its first market research department, particularly needed to guide its diversification.

II. NEW PRODUCTS, METHODS

United Fruit's brightest hopes for growth stem from its acquisition last year of Liana, Inc., a Texas freeze-dry outfit. Liana has a backlog of orders from hotels, hospitals, and other institutions for shrimp and chicken processed by the freeze-drying technique. Scores of other food prod-

ucts—meats, vegetables, and fish—have passed freeze-dry laboratory tests.

There are other diversification prospects. With its famous Great White Fleet of more than 50 refrigerated ships, United Fruit might market fresh produce other than bananas. Already it has close to 1,000 acres of tomatoes in production in the Dominican Republic.

United Fruit has 50,000 head of prime cattle, grown chiefly to feed its own workers. But it might supply top Honduran beef to the Caribbean hotels; last week it flew some to Puerto Rico as an experiment.

United Fruit has long dabbled in processed bananas; now it is taking over (from American Home Products Corp.) distribution of its own banana puree. Other tropical fruits might be processed.

Banana Switch

United Fruit has tried diversification in the past, into such products as palm oil, cacao, and abaca. It still sells them, but they haven't helped profits much. Bananas remain the company's principal business, producing more than 90% of its sales and income. So bananas have been getting most of Sunderland's attention.

Though it might not seem so to an outsider, one of the new president's most radical moves was his decision to try out the Lacatan banana on some unused land in Panama. It was radical because the old management had made a great point of sticking to the Gros Michel banana, a variety that Redmond insisted was "best suited to commercial handling, universally considered as a quality fruit, most in demand by wholesaler and retailer, and commanding the best prices."

The trouble was that the Gros Michel is highly susceptible to a soil fungus called Panama disease, for which no cure has been found.

Sunderland wanted to test-market the Lacatan, a banana variety that is immune to Panama disease. He met plenty of foot-dragging from his managers and technicians. Eventually, they were sure, United Fruit would find a way to curb the fungus. Meanwhile, it had a big investment in the Gros Michel. The Lacatan, furthermore, had a brittle stem, which made it unsuitable for United Fruit's technique of shipping.

Boxes to the Rescue

Sunderland got his way. The solution to the Lacatan shipping problem was prepacking in boxes in the tropics. "It's still too early to talk about the economic success of the project," says Sunderland (United Fruit started boxing only last summer and is still experimenting with ripening techniques, loading methods, and box sizes), but he thinks the company will be converting to the Lacatan in a few years.

Actually, boxing has its own merits. Standard Fruit, which began shipping that way last spring, now boxes all its Honduran and Costa Rican output, the equivalent of some 200,000 40-lb. boxes weekly. It

costs about 2¢ more per lb. to process and import boxed bananas, according to Standard Fruit Vice-Pres. Robert H. Smith, but savings at the receiving end equal or exceed the added cost.

III. OFF THE PLANTATION

The most significant of United Fruit's new policies is the decision for gradual abandonment of its own production. In the past the company wanted its own plantations because it felt it needed control of growing methods to maintain quality and prevent the spread of disease.

But United Fruit's big land holdings—still about 1½-million acres—make it particularly vulnerable to the vagaries of Central American politics. And its plantation holdings have forced it to tie up a lot of capital in unproductive assets—workers' houses and schools, for example.

New Pattern

Since World War II United Fruit has experimented with a method of operation that is halfway between company-owned and independent production. The company contracts with a local grower to take all his output at a mutually agreed upon price; then it supplies him with disease control and other technical services and with financing.

This is the "associate producer" pattern that United Fruit now hopes to extend to all its present growing land. It already has sold or leased to associate producers all the banana land it had in use in the Dominican Republic and Ecuador, most of that in Columbia, and about 20% of that in Honduras—so that last year more than 40% of the bananas United Fruit sold came from outside producers.

A complete changeover is a long way in the future; Sunderland refuses to put a timetable on it. The chief immediate bottleneck is the shortage of highly skilled farmers.

Second Thoughts

But there are other problems, too, and some Latin Americans who used to carp against the octopus are having second thoughts about land divestment. The company's maintenance of schools, hospitals, recreational facilities, and housing may have been paternalism, but who will pay for them if United Fruit doesn't? Unions are wondering how piecemeal local bargaining will work out. United Fruit has always paid better wages than other local employers.

United Fruit realizes that it, too, may be sorry. It may be harder than the company expects to maintain an assured supply of high-quality fruit if it doesn't grow bananas itself. Certainly United Fruit is inviting more overproduction, and lower prices, by fostering the very trend that has led to oversupply in the past—independent production.

But the policy, says Sunderland, will not be reversed. In view of nationalistic American political pressures, he sees no other choice.

In Transition

That's the company's only really firm long-range plan. The new United Fruit is still being born, and ideas are still in transition.

But within United Fruit hopes are high. Gardner reports, "There's an air of enthusiasm and a dynamism that seem to have caught up everyone." And a competitor still finds the company formidable. It's fighting back, he says, "like a wounded giant."

20 Why Babbitt Is Proud to Sell for Private Labeling*

The boom in private brands (retailer-controlled brands) is causing increasing concern and controversy among national manufacturers.

Many national advertisers secretly indulge in supplying private brands to giant retailers. In almost all cases, they conceal this activity as if it were a backdoor bootlegging business. Others, who don't deal in private brands, generally contend that the bootleggers are all outright traitors to the national-brand cause.

Even among the select top hundred advertisers, many are active, to various degrees, in supplying private brands to big retailers—in handing over to large retail chains the very private-label products that will compete against their own nationally advertised brands.

This is the accepted atmosphere. It's becoming a normal, yet secret, way of doing business for many national-brand manufacturers. Yet few of them go after this business in an active way; fewer will talk about it.

In this almost hypocritical atmosphere, there is one major company—B. T. Babbitt, Inc.—that is aggressively going after the private-brand business. Today, Babbitt is doing 15% of its total volume in private labels. It may do 25% in three more years.

Here, in an exclusive interview, Michael Patrick Frawley, president of B. T. Babbitt, tells why his company is proud to sell private brands to big retailers. Here is Babbitt's case for dealing in both private and national brands.

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* Reprinted by special permission from *Sales Management*, November 18, 1960.

Q. Mr. Frawley, would you describe Babbitt's philosophy of private brands?

A. Our philosophy on private brands is substantially the same as on national brands—we make soap and cleanser products to meet consumer demands. Today, there is a consumer demand for private brands just as well as national brands. As producers of quality products, we propose to meet this demand.

Q. How are you going about it?

A. In January 1958 we set up a Contract Packing Division, headed by Vice President Paul Golub. It is staffed with executives who have extensive backgrounds in retailing, production, packaging, and marketing. Its purpose is to sell private brands at a profit, to make a name for Babbitt as the prestige packer of private-label products in our field.

Q. What are the results so far?

A. In 1958, our first year, our sales of private brands were $300,000. In 1959, we sold $1 million. This year, I'll say, conservatively, about $3 million. That will be 15% of our total sales.

Q. What about next year?

A. Probably another million—a total of $4 million.

Q. You must have some substantial customers.

A. We certainly must have, to sell $3 million worth. Some of them are Stop & Shop, E. J. Korvette, Walgreen, Two Guys from Harrison, H. E. Butt in Texas, Jewel Tea, and Pick 'n' Pay.

Q. Then you're not selling private brands only to food chains.

A. Definitely not. Our customers for private brands include grocery chains and wholesalers, drug chains, discount houses, retail cooperatives, even auto supply chains. There's a lot of new excitement among these groups over private brands.

Q. Why?

A. It's largely a matter of profits. For example, the Stop & Shop chain in New England sells more of its private-label ("Stop & Shop") light-duty detergent than all advertised brands put together. Its mark-up on the private brand is 38%, against less than a 13 % average on the national brands. That's why they like it.

Q. And you like it too?

A. You're damned right we do. We're supplying every can of "Stop & Shop." It's a good product, and they're promoting it to the hilt.

Q. But isn't your own national brand right on the same shelves?

A. Yes it is, but "Glim" only has a fraction of the market. It's not being hurt.

Q. How about your competitors?

A. You'll have to ask them, but it's my guess that they are being hurt in the Stop & Shop chain. With the combined sales of "Glim" and "Stop & Shop" detergent, we're now getting more than 50% of the market in the Stop & Shop stores.

Q. What other products are you packing for private labels?

A. We're selling cleansers, light-duty detergent, all-purpose detergent, liquid starch, and a liquid laundry fluffer.

Q. Are the specifications for private labels generally provided by the customer?

A. Very definitely yes. The retailer is primarily interested in quality.

Q. Are you going after more private-brand business?

A. We certainly are. We're just about the only company selling nationally advertised brands that is actually going after private labels in an aggressive way. The others fool around a bit. A customer will ask them to do it, and maybe they'll accept. They hide it, but we're proud of it and are going after more of it.

Q. How much can you safely get?

A. We had 1% of our business in private brands three years ago. We have 15% now. We may very well have 25% three years from now. It's a little early to tell how large our total can safely be in private brands, but 25% does not seem out of line.

Q. Who are your competitors for this private-brand business?

A. Many of them are the straight contract packers. They're low-overhead operations that often do 100% of their business for private labels. They don't have the expenses of advertising, a sales force, distribution warehouses, a testing laboratory, and such.

Q. Then how can you compete against them?

A. We always offer something extra—a high-quality product. We have a big testing lab, quality control, the latest in packaging. Most straight contract packers are smaller and don't offer all this. We also sample shelf stocks continuously to be sure that quality remains superior.

Q. Are the chains then seeking higher quality for their private labels?

A. Definitely. Today's retailer is concerned with serving masses of consumers the best products at the lowest possible price. The average retailer faces a profit squeeze. And in a private label he can offer the consumer a product of equal or better quality than a national brand, at a lower price, yet at more than double the mark-up. He's being forced into it, and he'd be a fool not to do it.

Today's huge retailers are people who have an enormous stake in their corporate reputations. Such reputations were built through fair dealing with consumers and suppliers over the past decades. We find today's

big retailers are very conscious of the need to maintain their reputation with both the supplier and the consumer. The phenomenon of the food retailing business is that no one company ever dominates the majority of markets.

Q. And more consumers like private brands, too?

A. I believe they do. There has been a vast sociological change in marketing in the past ten years. Consumers are better informed, better shoppers, and self-service has given them an understanding that they are entitled to select what they wish. It's now smart to be thrifty. The ability to buy cheaply has become a status symbol in our society.

Q. So private brands are here to stay. Why aren't other national advertisers going after them?

A. After all, Procter & Gamble has 40% of the cleanser market. P&G sees absolutely no reason why it cannot bring out new national brands that will compete with its own established brands. It has tremendous advertising resources to do so. For example, P&G can afford sums equal to our entire sales volume, about $20 million, to advertise a single product. But, for us, private labels offer a way to strengthen our competitive position.

Q. Is it a profitable way to compete?

A. All in all, we make a fair, reasonable profit on private labels. One of the obvious big advantages is that this private-label business enables us to use our production facilities more efficiently and more completely. It contributes significantly to keeping our plants going at 100% capacity three shifts a day.

Q. But isn't dealing in private brands contrary to everything you do and stand for as a national brand advertiser?

A. Of course not. We support the Brand Names Foundation because it helps the consumer to get sound products, sound values. So do the other large national companies. However, we see no difference in providing for the market whatever products consumers demand—regardless of whether these products bear national or private labels.

Q. Is this how you justify your private-brand business?

A. The manufacturer has two responsibilities: to serve the consumer and to serve the consumer profitably. We don't want to be like Detroit, which refused to recognize the compact car when consumers demanded it. We think there is a place for private labels. We know that consumers want them; we know that retailers want them. We think there is a place for both private and national brands. We think we are fully justified in supplying private labels. We think private labels will be better products as long as we continue to research, advertise and promote our national brands as vigorously as ever.

Q. Does this mean that you won't cut back on advertising and promoting your national brands?

A. There will be no cutbacks as a result of our private-brand business. In fact, our contract packing business is putting us in better financial position so that we'll be able to spend more on advertising our national brands and developing new products for the market.

Q. But does your private-brand business help or hinder your efforts to sell your national brands to retailers?

A. It often helps us get distribution for some of our advertised brands.

Q. How?

A. Once we are supplying a large retailer with a private-label product, our salesmen gets to know the buyer better—to understand his distribution problems better and learn how we can meet them more realistically. With such an open door, our man has established a rapport with the buyer, giving us a better chance of getting distribution for a new advertised product or one new to the retailer.

Q. Then your salesmen don't object to your private-label business?

A. Hell no. They love it. When Paul Golub makes a contract packing sale to a large retailer, our salesmen are delighted. For one thing, that private-label volume goes into the quota of the man handling that account. For another, it makes it easier for him to talk to the buyer about our advertised brands.

Q. Do your salesmen help sell private labels?

A. They often do. They can tell us if a big retailer is in the market for his own brand. They often make a date for Paul Golub to tell a buyer what we have to offer. Sometimes they have even made private-brand sales completely on their own. Our salesmen show the way to almost all of our private-label accounts.

Q. Have you lost any private-brand accounts?

A. Only one, and strictly on a price proposition. If a straight contract packer makes up his mind to underbid us on price, often on lesser quality, then we may have to let him have the business. That was what happened in that case. Incidentally, that account has asked us to submit bids again on a high-quality product.

Q. Is price cutting a great risk in packing private brands?

A. Price cutting is one of the risks in all selling. The risks of contract packing are not greater—they may even be far smaller—than in selling national brands. The great challenge for us at Babbitt is to supply top-quality products for both private and national brands to meet the continuing demands of American consumers.

21 Securing the Product Switch-over*

Avien was doing fine as a component supplier to the Government. Then its market shrank. In reorganizing, Avien added marketing know-how to technological know-how, soon was selling systems of its own design.

Avien Inc. is one of the little wonders of the fabulous and sometimes frustrating electronics industry. Started with a capitalization of $2,000 and first-year sales of $7,000 in 1949, Avien expects to top $10-million this year. If Avien had climbed in a straight line, it would be just another success story. What makes its experience instructive—for both consumer and industrial marketing men—is the lesson it learned from a critical fall in the course of its advancement upward.

Like many other highly successful small companies in the booming electronics field, Avien started with a wealth of technological savvy and one product. President Leo A. Weiss, a former Air Force engineer, founded the company to produce an all-electronic capacitance fuel gauge for aircraft, an advanced device at the time. His market was limited almost entirely to military aircraft.

Avien grew as demand for its product rose. Swept along by the momentum of its success, Avien expanded to market other measuring and monitoring devices, building its technological strength in instrumentation—but still almost entirely for military aircraft.

Then, during the late '50s, the military switched emphasis from aircraft to rockets and missiles. Avien was caught with its market shrinking, saw its revenue fall from a record $7.4-million in fiscal 1959 to $5.1-million last year. In this way it learned that no market lasts forever, that a company must change as markets change.

Weiss adopted a three-point program of change. First, Avien would broaden its activities (military and non-military), to include air, space, undersea and ground markets. Next, it would explore industrial markets. And finally it would complement these moves with an increased tempo of activity in high-volume systems and sub-systems rather than in lower-volume components. Wherever possible, Avien was to be a "systems manager"—a prime producer of comprehensive products (systems) rather than a secondary supplier of components.

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In search of growth, Weiss was girding to battle the giants of the electronics industry. Such an ambitious program demanded a stronger marketing orientation—a return, actually, to the company's founding principles, which were now more important than ever. Avien would have to *understand* the problems of its potential customers, *anticipate* the needs of the market, and then try to satisfy those needs with *proprietary* products to strengthen its position against the giants and their vast capabilities.

Capability is critical in marketing to the Government and industry. A supplier company is measured by its capability in technology and management—that is, its ability to develop products and deliver on promises.

Objective: Capability

Avien had a strong, if small, foundation in those two areas. Weiss set about to acquire the broader technological and management capabilities the company would need to diversify and expand. When Fairchild Engine shut down one of its operations, Avien "acquired" from it a team of undersea propulsion experts and organized it into an advanced research and study center at Farmingdale, N.Y., not far from corporate headquarters at Woodside in Queens. Management capabilities were rounded out when Weiss recruited Norman C. Pickering as vice-president and technological director, and Gene Hopkins as marketing vice-president.

Meanwhile, Weiss was also broadening Avien's product base. He acquired Colvin Laboratories and Pressure Elements Inc., two companies which made pressure-and-sensing equipment; organized Trident Corp. as a subsidiary in Cambridge, Mass., to do classified research on undersea detection, and acquired Electrol Inc. of Kingston, N.Y., with its line of hydraulic landing-gear systems for military and commercial planes. Within the last three months, he organized an antenna department, headed by Richard Bogner, inventor of the Bogner antenna, a portable low-cost modular antenna said to have broad applications for space communications and other uses.

Avien has aimed at an integrated diversification, in which each new unit complements all others, adds to their capabilities, and so forms a whole that adds up to more than the parts. Weiss feels Avien is achieving this. The company has five major divisions: Avien (which includes the Farmingdale research center and the antenna department), Trident, Electrol, Colvin and Pressure Elements.

With confidence in its capabilities, Avien is conducting an ambitious marketing program to capitalize on those capabilities.

Corporate planning now is based on immediate considerations and long-range goals.

President Weiss, tech director Pickering and marketing chief Hopkins work as a "future products" committee.

Hopkins has built a network of manufacturers' reps to serve Avien in areas the company's still small field force doesn't cover itself. And he has conducted an educational campaign for the field forces of the various divisions and for manufacturers' reps to help them understand Avien's new markets and new marketing objectives.

Build-up by Promotion

The company is using a small ad budget, direct mail and public relations to tell its story. A prime element in its campaign is a program of presentations being made by top management to customers and prospects—to demonstrate Avien's new capabilities. All efforts are directed toward making the point that Avien is no longer simply a supplier of aircraft instrumentation components, but a marketer of systems.

In its new role, Avien has gone where the big business is, which means where the giants are, too. Together with four much larger firms, Avien already has weathered the first of two rounds of bidding for a contract to produce orbital flight simulators to test the effect of space conditions on men and equipment.

Avien also believes it has solved at least one they-said-it-couldn't-be-done problem. Where other companies gave up, Avien's Farmingdale center persevered, and now has produced a functioning prototype of a high-efficiency engine fueled by exotic liquids and said to be adaptable for use in space or underseas. If the engine is as good as Avien engineers believe it is, it could be the basis for a "system," perhaps a one-man submarine, which Avien would then be in a position to produce.

More than a year ago, Avien foresaw a swing in space-fuel composition from liquids to solids. Then, because it has always attempted to anticipate market needs, it developed a device to measure the shock and temperature of the sensitive solid fuel and so determine its utility at any given time in any environment. The monitor has been sold for use on the Polaris and is being considered for other missiles, too.

Avien has high hopes for a number of other possibilities. Apart from military applications, the company sees the possibility of a major market for its new antenna if and when ultra-high-frequency broadcasting is initiated. Although its Trident division's primary assignment was research on undersea detection, it is also working on light-weight radar for small planes.

Avien also is negotiating with a Government agency for development of a flow-monitoring system in an atomic installation. From here, Avien says, it could apply its broad capabilities in monitoring and sensing equipment to automation systems for industrial uses.

As part of its integrated diversification planning, Avien has introduced assembly-line production in the Electrol division. This arrangement could be modified to produce the larger systems which the company's technological capabilities can develop and its marketing capabilities sell.

Many of the developments are still in the to-be-demonstrated category, some of the high hopes are yet to be realized. But the crash program of building its technological and marketing management strength already has produced results enough to assure a sales record of more than $10-million this year.

In the process, Avien's experience has shown again the importance of a close relation between technological planning and marketing planning. New technological developments have opened new markets. The company's marketing strategy has sought out new directions for technological exploration. And in the process Avien has capitalized on an engineering-marketing teamwork to demonstrate new and growing capabilities.

22 Service: Base for Sales Growth*

Premier Industrial Corp. calls itself a "creative supplier." It sells 7,000 industrial maintenance parts, but its most valuable product is often advice. Service has become the basis of its steady growth.

Premier Industrial Corp., Cleveland, has made a big business for itself out of nuts and bolts and a fresh marketing approach. The company sells about 7,000 maintenance parts—fasteners, welding rods, electrical connectors and the like—for use in maintenance repair of industrial equipment, vehicles and buildings. Premier gives away technical advice and planning assistance in the maintenance area which is sometimes worth more than the products sold.

Company salesmen make about 1,900 calls a day, see each of their 40,000 customers about once a month. They organize stock cabinets and bins, check the parts inventory on each visit, talk with the maintenance chief about his problems. Where a problem involves a product, the salesmen call in one of 12 product research analysts whose job it is to develop product solutions to customer problems.

In every case, the Premier organization is motivated by the view that maintenance and repair work demands specially designed parts because the problems experienced in maintenance are different from those facing the original equipment manufacturer. Premier designs each part

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it sells, but farms out manufacturing under contract, reserving for itself a role which president Morton L. Mandel describes as "creative suppliers."

Morton is one of three brothers—Jack and Joseph are the others—who founded the company 20 years ago as an auto parts distributorship in Cleveland. Like a lot of other small companies, they sold spark plugs, headlight bulbs, floor mats and other replacement items to service stations and garages in a highly competitive market.

After two years of it the brothers, the oldest of whom was 28 and the youngest 19 when they went into business, conducted a critical question and answer session. Why, they asked themselves, should our customers buy from us? The answer, as the Mandels decided, was that customers should buy from them because they were going to give them products and service hard to get elsewhere.

The products on which the Mandels planned to concentrate were those that most others ignore: little things like nuts and bolts and moulding clips. Small and low-priced, they were nevertheless important—especially when they were needed by a mechanic, and hard to find because they were difficult to stock and identify properly.

Along with such products, the Mandels planned to help their customers make order in the frequent chaos of the parts stockroom. They designed special bins and cabinets for the small parts, and constructed identification charts with samples pinned on to make identification easy. To make it easier still, the parts were identified by the numbers under which Premier sold them.

When it adopted its small parts-big service program, Premier also expanded its market to include auto dealers as well as service stations. It expanded geographically, until by 1946 the company had spotty national distribution. The Mandels also were now designing their own parts. As their program succeeded in the automotive field, they began seeking new markets to conquer.

The brothers felt they had been putting too much emphasis on products. In 1954 they reoriented their thinking to markets rather than products.

Their objective was to serve the maintenance needs of all kinds of machinery and equipment. They went after construction firms that operated trucks and cranes and other vehicles. Then they branched out to serve general industrial equipment. In 1954 they split the business into two divisions: automotive, and fasteners (nuts, bolts, clips, etc. for all kinds of machinery). Last year a third division—maintenance welding products—was added, and this year Premier added a fourth, maintenance electrical products. Each division serves specific markets with the same policy of specially designed maintenance parts and customer-tailored service.

Each division has a separate sales force, a total of 380 men, operating on the principle that to do his job properly the salesman must leave the

customer better off than when he came in. It is recognition of the principle that the best way to build your own business is to help your customer run his better.

The company's sales recruiting and training is "100 per cent scientific in philosophy, if not in technique," says Morton Mandel, speaking with more candor than many executives. Recruiting is informal. Men come to the company through referrals generally. Training also is informal. It includes classroom-type briefing sessions on products and sales technique. But most of it is field work under close supervision by sales executives who gear the training program to the individual needs.

"It is fluid," says Morton Mandel, "but firm in its objective, which is to make the man understand that we want representatives who understand the customer's problems and know how to help solve them. We don't want just order takers."

There are five layers of management in the field force, ranging from territory supervisor through district manager to division sales manager. But the most important element of the sales organization—which is not included in these five layers—is the Sales Advisory Board of 60 salesmen, who serve in this capacity without pay, conducting special surveys and making weekly reports on customer problems, product needs and competitive activity.

Reports from the advisory board, from the full sales staff (each man files "new item suggestion" reports as ideas arise) and from district, regional and divisional sales executives are routed in a steady flow to various marketing units. The reports are the basis for action by a marketing organization divided into two basic units: a marketing department, and a product line planning department.

Divisional sales managers report to the director of marketing. So do a half-dozen other functions, including sales promotion and advertising, marketing research, sales administration (recruiting, testing and policy), sales training, sales service and sales analysis. The product line planning department concentrates on research and development of new products, and quality control of the contract manufacturing. Apart from research and development and engineering, the key unit here is a force of 12 product research analysts—field men who are in close touch with customer operations and whose job it is to plan product solutions to customer problems—existing problems and those that may arise.

Service appears to be the motivating keyword for the entire Premier organization, with the customer as the focus. Customer orientation extends to a policy that only marketing men may deal with customers. That includes even collections—on the theory that this is an area of customer relations and therefore a marketing matter rather than an accounting issue.

Such policies seem to have worked well. Premier's sales in fiscal 1960

were $12,826,118—up 166 per cent over 1951. Earnings were $1,343,624—an increase of 181 per cent in the last ten years.

Premier plans to keep growing by continuing to find new customer maintenance problems to solve. Manufacturing firms have proposed acquisitions that would take Premier directly into manufacturing, but the company has resisted. Strong in the market, it feels no need for a mill. As long as it can *design* the products it needs to serve its markets, Premier plans to continue building its role as a "creative supplier."

23 Total Marketing Sells Glass Building Blocks*

BY J. H. COLEMAN†

Pittsburgh Corning brings out a new product, then skillfully promotes it to prove to buyers it's what they want. The campaign won a top AIA BestSeller competition award.

By early 1959, it seemed clear to Pittsburgh Corning that a flat surface had become an architectural liability in a curtain wall material. Architects were expressing an increasingly strong desire for surface texture in building materials use as exterior building walls.

As a result of this realization, we undertook a complex, total-marketing program.

Product Development

Our product, glass block, was available in eleven colors; 6″, 8″, and 12″ squares; plus 4 x 12″ shape—but both surfaces of the available glass blocks were flat. So, a market research program was started to determine the nature of a pressed-glass product to meet the noted architectural trend.

PC's new product development group designed such a glass product which incorporated three dimensional patterns pressed deep into each face of a 12″ square, 4″ thick hollow glass block. Additional market research indicated a favorable acceptance for the product by architects.

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† *Advertising, Sales Promotion and Publicity Manager, Pittsburgh Corning Corp., Pittsburgh, Pa.*

The product was named "sculptured glass modules," and was made in 11 ceramic face colors.

Incidentally, to keep the use of the product on a high architectural level, sculptured glass modules were made available on "architectural specifications only."

Product Introduction

The next step was to familiarize the market with the product in the shortest possible time, to take full advantage of this architectural desire for surface texture.

Concurrent with the development of the new product, Pittsburgh Corning's advertising department, along with our advertising agency Ketchum, MacLeod & Grove (Forrest Rosenberger, vice-president and group manager, and John Edmundson, account supervisor), was setting up the advertising, sales promotion and publicity plans. The key decision was to establish the theme of *architectural light and shade* as a valid answer to the architect's discontent with flat surface effects. Because of the authentic interest of the architect, this concept represented our strongest sales point.

Next, we established a clear, consistent graphic expression which embodies the concept of architectural light and shade and represented texture and surface dimension to the architect. This theme was evident in each advertisement, publicity release and promotional piece produced for the program.

Total Program

Our program was a total one. We first introduced the product and promotional approach to the sales force at our February, 1960, sales meeting. Both the advertising presentation and the sales manager's presentation made a specific point of relating the theme, "*texture—light and shade*" to sculptured glass modules.

Each salesman was given a series of architectural sketches illustrating design ideas for using the sculptured glass modules in wall panels. They were also given a supply of special calling cards, incorporating the graphics of the program.

Primary Effort

Because the architect is our key specifying influence and his acceptance or rejection would determine the success or failure of the product, our major promotional efforts were directed towards the architectural publications. And since these publications are limited in number, we decided to make individual calls on editors, rather than holding a general press conference. The product, along with the individual calls, stimulated sufficient editorial interest to gain major emphasis in the new product sections of the magazines.

Maximum introductory advertising impact was gained by placing four

advertisements (one on each sculptured glass module pattern) in the February, 1960, issue of *Architectural Forum.* The four advertisements were inserted on consecutive left hand pages and the basic concept of light and shade was presented both graphically and by copy.

Other important specifying influences were reached through a continuing space schedule. By integrating the new product in our full-line series of ads in *Architectural Record* and *Business Week*, we again reached architects, plus building "owners." A special apartment issue of *House & Home* was used to take full advantage of the strong activity in the building of apartments.

To make the mason contractor aware of Pittsburgh Corning's efforts to promote a masonry type product and build his business, we ran a schedule in the *Mason Contractor News.* The school market was reached by incorporating the new sculptured glass modules in our ads appearing in *Nation's Schools* and *Catholic Property Administration.*

Direct Mail

As a back-up for space advertising (and doing double duty as a direct mail piece sent to our selected list of key architects) a unique promotional piece was designed. The basic idea resulted from comments related by our salesmen. They reported that the architects were making use of the "idea sketches" which we had distributed to the men during our sales meeting.

So, we reproduced these sketches on a simulated onion skin paper which closely approached the medium architects work with daily. The sketches were stapled into a four-page brochure which continued the theme "architectural light and shade" in a fashion completely compatible with the authentic interest of the architectural reader.

In addition to the "idea sketches" brochure, a set of five other mailings was sent to each of the architects on our list. The first mailing was a special debossed piece utilizing three dimensional effects on paper, to dramatize the textural capacity available.

The remaining four mailing pieces used photography to interpret texture and light and shade as it could relate to our sculptured glass modules.

The format of the four photographic pieces readily illustrates that ideas originate from many sources. We had an opportunity one afternoon to review a folio of superb photographs by Len Schugar, a Pittsburgh photographer who had just returned from a European tour. He had captured the essence of texture, light and shade in his interpretative photography of the architecture of the old world. The sheet-fed gravure process was used to best reproduce the subtlety of the illustrations.

'Involvement'

Hard sell, in the common sense of the word, was not a part of this campaign. The attempt was, through handsome appearance and digni-

fied copy, to establish the essential quality of *involvement* between the architect and sculptured glass modules.

That we succeeded in establishing this involvement is evidenced by the fact that these mailings pulled more than a 25% response for additional information, and over 8% of these specifically requested a representative to call. They proved to be the most successful of any mailings we have made to this audience.

Catalog Overhauled

It so happened that our standard catalog on glass block was scheduled for a complete overhaul during this period, so the new product became a dominant portion of the presentation. And, again, the basic concept of "light and shade" played its part. As a result, the total glass block line benefited from the use of the graphic and copy approach developed for the sculptured glass modules.

Follow-Through

Internal promotion to our own salesmen and distributor salesmen was continuous. As each new promotional tool was produced, a transmittal letter was prepared which not only announced the availability of the item, but also explained the purpose and offered suggestions on how it could be best utilized in the field. At all times, the promotional material was discussed in terms of the relationship of the new product and the theme "architectural light and shade."

Trade shows also played an important part of the total program. By use of wood strips instead of mortar, we designed and erected 8′ x 10′ panels of sculptured glass modules as display backgrounds. These panels illustrated the variety of designs possible with the four face patterns and eleven colors. These trade shows offered us a splendid opportunity to discuss the product, face to face, with the many interested influences that we would not otherwise have been able to reach.

Another strong sales aid for the promotion of any new building material is to show actual installations. Because of the normal time lag between product introduction, specification in a building, and final completion of the building, we were unable to provide photographs to our salesmen until the latter part of the year. But as they became available, we had type C photographs taken and prints produced and distributed to the men.

Finally, to maintain the consistent presentation of our basic concept, we used the "architectural light and shade" graphics on all shipping cartons and product sample labels.

Results

Compared with Pittsburgh Corning's historical forecasting of first-year sales of a product in the architectural market, the 1960 volume goals

for the sculptured glass modules were especially optimistic—particularly in view of the 12 to 18 month industry-accepted time lag from first specifications of a product to shipment to the job.

The sculptured glass modules were introduced officially in February of 1960. Before the end of 1960, shipments had met the demanding goal.

This record indicates several significant factors: Interest generated was unusually rapid; and it became apparent that specifications already written for other materials were being switched to PC sculptured glass modules.

Additional proof of success:

1. *Inquiries* . . . In the 11-month introductory period, inquiries from advertising, publicity and direct mail exceeded 4,000. The inquiry mix was well balanced between the specifying (architect) and approving (client) factors.

2. *Internal merchandising and sales aids* . . . The internal promotional program was an organized, dramatized and consistent "sales approach" course that helped the sales organization accurately tailor its sales presentations to the strong selling premise of light and shade in architecture with sculptured glass modules.

Prospects were hit with the same story through a unified advertising and sales effort.

3. *Rapport with the architectural audience* . . . Letters from architects expressed their favorable opinion of the program. A typical comment:

"I was very impressed with the photographs and the way the entire piece was handled and would like to receive this, and any other literature that you may have in this group. I would also like a set for our architectural club for display."

PART FOUR

CHANNELS OF DISTRIBUTION
RETAILING
WHOLESALING

24 New Moves Indicate Basic Policy Shift for A&P*

Despite basic and significant changes in its operational policies, as detailed in this study, A&P remains the traditionally uncommunicative —even hostile—company it was in the days when the Hartfords maintained their iron grip on the organization. In the face of repeated requests for information, reporters invariably are greeted with the response, "No comment."

Material for this report, therefore, was compiled from other sources by Associate Editor Paul Gould, who researched and wrote this report. Acknowledgements are herewith extended to several dozen knowledgeable retailers who were interviewed in different sections of the nation, to the Justice Department and FTC, to editors of business and financial publications, to investor services, and to Profs. M. A. Adelman of M.I.T. and Frank J. Charvat of Emory University, authors of recent studies covering the nation's leading food retailer.

Three weeks ago, the Great Atlantic & Pacific Tea Co. launched its first full-scale trading stamps offensive in 40 years, after laying down a heavy barrage of commercials in all communications media in northeastern New York State. The drive had been heralded by a mustering of top personnel in the Albany-Schenectady area. Additional signs of a major move for weeks preceding the actual unfurling of the MacDonald Plaid stamps program were evidenced in the repeated summoning of store managers to the Albany warehouse.

In ordinary times and under ordinary circumstances, any such unprecedented steps by the tea company would have provoked alarm and dismay in competitive quarters.

But when *Food Topics* queried a dozen different small and medium-sized operators in the area, their response ranged from cautious concern to outright defiance. There was little panic, no fear of doom. One smaller chain's president said flatly, "Grandma missed the boat on stamps." Another was sharply critical of A&P's "basic mistake" in ignoring store sites in shopping centers—a factor which led to a deteriorating market position, he said, and consequent introduction of stamps. A third confidently spoke of plans for a stamps counter-drive of his own.

These comments, more representative of A&P's competition than not, reflected a significant change that has come over both the nation's No. 1 retailer as well as its competition. To be sure, A&P still takes down ap-

* Reprinted by special permission from *Food Topics,* December, 1961. Copyright, 1961, Gaylin Co.

proximately 10% of the nation's food dollar and is dominant in most of the markets in which it operates. Unquestionably, it will continue not only as the giant in retailing, but as the fifth mightiest corporation in the nation. Only AT&T, General Motors, Standard Oil of New Jersey and Ford rank higher in the list of bluebloods of industry and commerce.

But in terms of A&P's percentage of individual markets, in terms of its rate of growth (*see Table 4*), in terms of its agility in maneuvering as the price leader, in terms of its vertical integration as manufacturer and distributor and consequent mover of merchandise—in terms of these fundamentals, A&P has been slipping. Its net profit has always been more anemic than the industry average, despite a 13% pickup last year. When the Graybar Building executives in New York in the past year took on "the new look," they had finally been jolted out of inbred complacency.

Two simple illustrations—whose legitimacy this publication can vouch for—indicate the ebb of empire:

A division manager of the tea company, accompanied by an aide, was scouting a store of a highly successful chain rival. The division manager, who was new to his post, remarked to his companion as they left the store:

"There's nothing they're doing here in this store that we can't do."

The other story concerns a relatively talkative A&P executive who was chatting with some top brass of a leading manufacturer in a zone infested with subsidized discount house supermarkets that keep putting on a Santa Claus act with poultry and meat.

"Our sales have been down in the past few weeks, but I guess you've heard this, too, from the other chains," the A&P man said. The remark, however, was more of an anxious query than a factual statement.

What it boils down to is that A&P had been subjected to a hard and unrelenting pinch in areas where it long has been cock of the walk. This is evident from an analysis made by industry leaders close to the scene. For example, the president of Local 342 of the Amalgamated Meat Cutters, Toby Coletti, told his stewards last month that A&P was now No. 2 in New Jersey and was being pummelled by discount houses in New York.

It is also evident from new policies instituted at the Graybar Building and by activity rarely associated with "grandma."

Consider a few of these top-level innovations:

The trading stamp program, a far different approach from the cooperative Los Angeles Blue Chip plan. Introduction of the detested (to A&P) stamps is *prima facie* evidence of how badly A&P has been hurt by them.

The company's asking several real estate brokers to locate "suitable land" for stores of around 100,000 square feet in size—presumably for experimenting with the super-department store types of operation. (Few observers think A&P will go into discount house operations and/or discount house pricing since this involves *verboten* loss leaders.)

Its newly enforced 65-year retirement age. Extensions are no longer permitted and a horde of "Young Turks" are rapidly replacing the demobilized.

A&P's negotiations with Signet Laboratories for prescription drug departments in some stores.

Introduction of the first of what may well be a chain of coin-operated dry-cleaning establishments, operating on a round-the-clock basis.

New headquarters buying procedures, including acceptance of co-op money for one-inch newspaper ads, approval of self-contained display units for non-foods and in-and-out items, preferring palletized shipments to the warehouse and searching questions put to salesmen on what the competition is doing, shelf-wise.

Impending consolidation of warehouses. A reliable source reports the six depots in the New York–New Jersey area will be consolidated into three.

Increasing awareness of the financial community and a responsibility to stockholders, some of whom are giant investment companies. The drive for cleaner stores is said to have stemmed from stockholder unhappiness on this score. "It has been very noticeable," said two different spokesmen for publicly owned chains, "that since A&P became publicly owned it's been acting like a publicly owned company. Quite possibly outside members of its board of directors are now swinging weight in the direction of a better public image."

Its "discovery" that many stores are not only unpretentious but comparatively unattractive to sophisticated shoppers.

Departure from the overworked formula of selling encyclopedias, record sets and dishes over a period of weeks. A&P has launched a vigorous promotion which ties-in quality general merchandise at prices approximately 10% above cost for an accumulation of register tapes. In the initial promotions, first Sunbeam shavers and then Swiss watches (*Herlin*) were sold, presumably as the start of a continuing program.

Taking the initiative in 9 p.m. closing hours and Sunday openings.

Concededly, A&P's "innovations" represent no distinct novelty for the industry; but for the tea company, they are part of an important new pattern. In the course of the past six weeks, this publication has interviewed dozens of retailers, many on the chain level; financial experts in Wall Street, and others close enough to the scene to detect fundamental shifts in policy. With rare unanimity, they are agreed that A&P is moving rapidly to adjust more realistically to competitive conditions and that most of these changes, for A&P, are revolutionary.

One of the profound shifts in policy is a divestiture of the philosophy imposed on the company by John Augustine Hartford, "Mr. John," who built the empire and ruled it with an iron hand. While Mr. John, as the supreme architect of food merchandising, brought about a new way of retailing and virtually a new way of life for the American consumer, he did saddle the company with the consequences of two decided blunders:

It wasn't until 1937 that he gave the order for full-steam ahead on supermarket construction. (*See Tables I, II and III*). Meantime, the rest of the industry was furiously cashing in on the self-service supermarket principle, and so A&P with its 15,000 stores was eight lengths behind the field and fading in the stretch. Soon after A&P made its belated move, the war intervened, the economy switched over to arms, and the freeze was on materials, manpower and free fl~w of goods (*see Table III*).

Secondly and equally as faulty was Mr. John's judgment that the nation was headed toward a depression in the 50s. Accordingly, in the late 40s, he ordered the changeover from small stores to outlying supermarkets curtailed. It was his belief that in the depression the customers would not have money for gas or

TABLE I

Number of Stores for Five Leading Chains, 1934-1940

	1934	1935	1936	1937	1938	1939	1940
A&P	14,716	14,610	14,446	13,058	10,671	9,021	7,073
Kroger	4,352	4,250	4,212	4,212	3,992	3,958	3,727
Safeway	3,228	3,330	3,370	3,327	3,227	2,967	2,671
American	2,859	2,826	2,816	2,620	2,416	2,272	2,157
First Nat'l	2,623	2,556	2,473	2,350	2,244	2,137	1 923

Editor's Note: This table graphically portrays A&P's grave miscalculation of the future of the supermarket. From 1934, when the move to self-service, large-size units was getting onstream, A&P had almost as many stores as it did in its pre-depression fiscal 1929, when it operated 15,150 economy stores. It wasn't until 1937 that John L. Hartford recognized the character of his blunder. This table should be studied in conjunction with Table IV for a correlation of number of units in relation to sales.

TABLE II

A&P's Profitable, Unprofitable Stores, 1933-1941

	No Stores	No of Unprofitable Stores	% of Unprofitable Stores to Total
1933	15,095	3,060	20 0%
1934	14,995	3,871	25 8
1935	14,885	3,651	24 7
1936	14,697	3,467	23 6
1937	13,264	4,382	33 3
1938	10,827	2,354	21 7
1939	9,088	1,619	17 5
1940	7,143	889	12.4
1941	6,165	639	10 3

Editor's Note: By 1937, fully a third of all A&P stores were unprofitable. Then began the mammoth changeover to supermarkets (see Table III, p. 161) and in four years the number of red-ink stores had dropped from 4,382 to 639. But the 10.3% number of unprofitable stores in 1941 was a hangover that was to plague the tea company for several years, because of wartime restrictions (Table III).

It is also important to note that fully one-third of all food stores sales went into the supermarkets' column between 1930 and 1940. A&P's being asleep at the switch until 1937, as this table plainly shows, emphasizes a curious probability: had the tea company moved into the big-store field when the rest of the industry did, its share of the total market today could be over $8 billion annually, on the basis of average $2,000,000-per-supermarket volume prevailing for 15,000-square-foot units.

cars or both and would not take to the highways for shopping. In keeping with this prognosis was his fixation about smaller units (i.e., 12,000-square-foot supers) in the centers of population (75% of all A&P sales come from areas with 75% of total population of the U.S.).

A&P, in effect, was locked in on small supermarkets under 10-year leases in urban areas not responding to the population explosion and re-

mote from the fast-growing suburbs. Even now, as these leases terminate and new ones are being negotiated or stores relocated, rentals have gone up sharply. As of Feb. 25, 1961, there were some 4,660 A&P leases in force. Rental expenses totaled $61,300,000 in fiscal 1960 vs. $54,000,000 the previous year, a 13% increase. They will be correspondingly higher next year and in the years ahead. Average volume per unit is a meager $1,125,000.

Meanwhile, the competition hadn't taken to cover. They were out aggressively pushing for the 20,000-square-footer in shopping center and highway sites in the suburbs. And *their* leases, for 15 or 20 years, carried more favorable terms; the stores at that size are in far less danger of being outmoded than the smaller A&P's in urban areas, they have space for expansion or added parking, and their taxes are less burdensome.

TABLE III

Effect on A&P Sales of Supermarket Construction Program, 1936-1943

	No. Stores	No. Supers	Total Sales (in millions)	Super Sales (in millions)
1936	14,446	20	$ 889	$ 00
1937	13,058	282	864	53
1938	10,671	771	866	220
1939	9,021	1,119	976	401
1940	7,073	1,396	1,099	594
1941	6,042	1,594	1,348	846
1942	5,821	1,633	1,435	934
1943	5,751	1,646	1,259	761

Editor's Note: By 1942, wartime restrictions barred construction of new stores, and shortages cut into volume. (A&P's supermarkets were much smaller than the standard 10–20,000-square-foot size.)

The upshot of these twin miscalculations was that A&P in that period lost hundreds of the advantageous sites in the business, sites that were gobbled up by the fast-growing competition and converted to $2,000,000 and $3,000,000 units. The competition latched themselves onto 15 and 20-year leases, they attracted a huge flow of auto-borne traffic and their volume per square foot rose sharply, quite often at A&P's expense.

Unable to share in benefits accruing to its rivals—such as their being able, on the wings of prosperity, to merge with other companies or to swallow them whole—A&P gradually began to lose momentum in the 50s. Where the tea company only as recently as 1950 easily exceeded the combined volume of its five closest competitors, that no longer is true (*see Table IV*). The competition's rate of growth doubled, tripled and quadrupled that of A&P's and is still doing so.

But there was an overwhelming reason for A&P to be mired down—aside from Mr. Hartford's obsession with the "depression," an obsession that only recently his successor, Ralph W. Burger, was able at laborious cost to overcome after Mr. John's death in 1951. That reason was the consent decree A&P signed in 1954 after 12 bitter years of fighting the government in the famous anti-trust suit. Under terms of the consent decree, A&P is barred from operating any of its seven divisions—which the government wanted to render into seven different companies—at a loss.

TABLE IV
Sales of Leading Chains, 1929-1960
(Add 000,000 to All Figures)

	1929	1932	1937	1942	1950	1960
American	$ 143.3	$ 115.5	$ 114.6	$ 209.1	$ 469.8	$1,011.5
First Nat'l	107.6	100.9	124.3	187.8	371.9	—
Food Fair	—	—	—	—	—	840.2
Kroger	286.6	213.2	248.4	388.8	861.2	1,870.3
Nat'l Tea	90.2	65.7	62.1	90.0	315.2	855.8
Safeway	213.5	229.2	381.9	611.1	1,210.0	2,469.0
Total, 5 Chains	841.2	724.5	931.3	1,486.8	3,228.1	7,046.8
A&P	1,053.7	864.0	881.7	1,471.2	3,179.8	5,246.6

Editor's Note: This table depicts the fortunes of A&P and its changing position relative to its five leading competitors from 1929 on. As detailed in this study, A&P's tardiness in converting to supermarkets in the early 30s (see Table II p. 160) impeded its growth even while its competitors were piling up sales at a faster pace. By 1937, John L. Hartford had recognized his error and plunged into the changeover from the economy stores to supermarkets. The 1937 sales figure, little different from that of 1932, is, however, startlingly different from that of 1942, when the war halted construction of new stores. In the 40s, A&P became entangled with the anti-trusters. The 1948 conviction and the consent decree in 1954 hamstrung A&P in whatever normal plans it might have had. Loss leaders could not be used even in self-defense, mergers were impossible and even trading stamps were frowned upon. To be sure, the developing competition capitalized on a wave of mergers but it must be remembered that A&P's own comparable history had included a succession of acquisitions. On the basis of current interim reports for fiscal 1961, it is anticipated that the competition's combined lead over the tea company will be even greater than in 1960.

As a result, A&P sedulously—almost fanatically—persists in avoiding any price or merchandising policies involving loss leaders or any instrument with which it can be accused of putting competitors out of business. This scrupulous adherence, indeed, has observers goggle-eyed over the two charges currently leveled at A&P by FTC, alleging violation of the law. (Said charges in Oct., 1959, involved the Adams Dairy Co., A&P, Safeway and Kroger in Cleveland, and H. P. Hood & Sons and A&P in Boston in Jan., 1961. To date, no decision has been rendered in the former case, pending before the Court of Appeals for the Eighth Circuit, and no hearings have been scheduled on the latter case.)

An illustration of the pains A&P buyers take to stay clear of the mire

of conspiracy, price-fixing or restraint of trade is their persistence in grilling manufacturers' representatives on whether the same offer is being made available to the competition. Few personnel in other headquarters ever bother to level this question.

A remark a member made at this year's National Food Distributors Assn. convention mirrors A&P's horror of federal entanglement. "It seems to us," said the member, "that the reason A&P is a secondary retailing force in the Washington, D.C., area is that it does not want to attract the attention of the trust-busters under whose nose they are operating. That's why Safeway, Food Giant and others are so powerful in that market."

Besides these overpowering neuroses—Mr. John's conviction of an inevitable depression that never did come to pass in the 50s and the panic about any possible collision with law-enforcement agencies—there is still another weakness upon which the competition has likewise capitalized, assert veterans of the trade. This is A&P's insistence that despite the fact that it is in the food business, it is still not a part of it. It is painfully obvious in the monolithic structure in the Graybar Building, in the inflexibility of its supervisors.

Indeed, those close to A&P among competitors point out that while the company enjoys amicable relations with its store managers, the latter are severely inhibited. They are prevented by custom and dictum from exercising initiative and when they do make pointed suggestions, are more often rebuffed than encouraged. As a result, they soon cease and desist in their efforts to convince supervisors of the need for change.

The supervisors, on their part, are similarly frustrated. "Don't rock the boat," is one way they in turn describe the attitude of their superiors. "Don't try to take my job away," is another way.

Whether gospel or legend, the fact remains that where one non-A&P manager in a hotly contested area will call his headquarters two or three times a day to report on price changes or other special situations developing in the area, the competing A&P manager will seldom follow through in the same way.

Curiously enough, A&P does rely on its managers in another way: it puts faith in them to make evaluations on what is happening among the competitors. Close observers of the scene seriously question the fitness of store managers to render so precise a judgment.

Apart from all of these massive road-blocks, there is the formidable barrier imposed by the sales executives at A&P. To put it briefly, in the opinion of observers, the sales department runs A&P. It is inflexible, it is self-centered, it concentrates on the one area—"how are sales?" By comparison, other key facets emphasized by the up-and-coming competition—operational costs, new plant facilities, employe recruitment and training, experimentation, working closely with other chains through SMI and NAFC—are played down by A&P.

In ordinary situations, such blithe indifference to a balanced program

could prove disastrous. What A&P has going for it, of course, is its tremendous, unlimited, staying power—its endless wealth, its perennial image as the low-cost, low-price retailer, its overpowering advertising saturation. A&P could slash prices furiously and deeply and across the board and sit it out for years, if it so desired. It could bleed competition to death, if it so chose.

But A&P, in the words of its current president, is the salvation of the shopper, the low-price champion. After the consent decree, A&P religiously maintained above-cost prices but, at the same time, provided substantial savings to all consumers by setting the pace on prices. Were it not for A&P, it can be flatly stated, the cost of living would have risen sharply on the basis of food's climbing in almost the same ratio as other costs figured in the ever-mounting Consumer Price Index.

Retailers in private have admitted this to *Food Topics* and have toasted the A&P in moments when fear and normal desire for increased profit did not intervene. One outspoken operator expressed perhaps the sentiments of the entire trade when Cal Mayne, owner of the fabulous Dorothy Lane operation in Dayton, Ohio, told a 1960 conference at the University of Delaware:

"Once I was convinced that Hartford should have been strung up on a tree; now I believe a monument should be erected to him for keeping down the price of food to the public."

But A&P is only self-defeating in its obstinacy, its refusal to recognize conventional public relations practice. A&P introduced price competition to an industry that for scores of years offered the same products at the same prices. It gave cash-and-carry to retailing. But it never fully capitalized on its contributions. Indeed, its low-price policy, carried to an extreme, led to the knockdown and dragout battle over the Patman Bill to tax chain stores. A&P never did employ accepted methods of publicizing its cause. Instead, the $1,200,000 it gave Carl Byoir was largely wasted because the public relations really masked A&P's campaigns by supposedly independent parties. Finally, after 1954 and the consent decree, A&P wrote a footnote to its ill-conceived program by retreating to a hermitage and never reappeared.

Several instances that point to A&P's obtuseness:

In 1948, a federal indictment in Chicago charged certain dairies discriminated in price in favor of certain buyers, among them A&P. When the case came to trial, the indictment was dismissed for lack of proof. The Justice Dept. then entered a civil complaint which made no mention of A&P. But the 1948 accusation, which had been dismissed, was nevertheless cited in 1952 to prove discrimination in favor of A&P. The shroud of silence that had begun to envelop A&P was very evident here. Its lack of a retort, of an anguished howl, was accepted as inability to establish innocence.

Four years ago, this publication checked out a story that A&P was experimenting with outdoor vending machines in Levittown, N.Y. The company was queried, as per SOP. Came back the usual rebuff: "No comment." A&P was

asked where its stores in Levittown were located. Again the Neanderthal Age public relations potentate put on the groove-worn record: "No comment." The reporter five minutes later got the location of the machines—from Food Fair. But it must be stated that in the view of many observers, the Carl Byoir organization is often perturbed by the intransigence of the client it has to handle like a premiere danseuse or a hot potato.

It is significant that when Prof. M. A. Adelman, then at Harvard Law, undertook an analysis of the court trial—an analysis, incidentally, which is favorable on the whole to A&P—he was similarly rebuffed. His preface states: "A&P, unfortunately, cannot be included in this acknowledgement since they did not grant my request for information."

One cannot legitimately be charged with error in reporting on A&P because the dust in the researcher's eye is often thrown by no less than the company's iron man, Ralph W. Burger, on the infrequent occasions he rises to speak for publication. Take the case of the MacDonald Plaid stamps. Only last spring, at the annual meeting of stockholders where he holds forth at length, the A&P prexy reiterated his animus toward stamps. On repeated occasions, he had called them a "fake" and a "sham." He had angrily denounced them as giveaways for which the housewives had to assume the burden of costs. A&P still rides forth to battle on a white charger in certain areas.

"Cash savings are the only kind that you can spend as you see fit. Don't be sidetracked by inducements that offer possible advantages in the future," he exhorted. Only a month prior to A&P's combining with other retailers in the Los Angeles area on the Blue Chip program early in 1960, Mr. Burger said:

"Giveaway schemes have just about run their course because the consuming public realizes there is no pie in the sky and that the expense of such promotions ultimately must be added to the cost of doing business."

But when pinned down on an apparent reversal of policy by stockholders, Mr. Burger cheerfully pointed out that divisional and regional offices make their own decisions. Officials at the Graybar Building, cherub-like, insisted they knew nothing about the California stamps move until the Blue Chip program story appeared in the press.

Further, cynics pointed out that in 1910 and again in 1921 A&P had been giving away S&H Green Stamps and that it has had its Royal Gold Stamp Corp. on a stand-by basis for three years. They follow up with chapter and verse pointing out that A&P had likewise opposed other innovations, such as non-foods and health and beauty aids, but that shortly after, it had widened its area of activities considerably in these very departments.

Nevertheless, Mr. Burger and his cohorts remain unshakable in their position that there is no inconsistency between statement and activity. "We have remained relatively conservative in the area of costly promotional devices, firm in our conviction that the consumer is still more

interested in quality foods for lower prices than in the 'something for nothing' philosophy," he stated publicly.

It is his interpretation of what the customer wants that provides the all-important clue as to apparent inconsistency. If Mr. Burger feels on Monday that the housewife does not want pie in the sky, stamps are out. If on Tuesday he has decided the shopper does, indeed, prefer stamps, then stamps are in—especially if stamps plus low prices are giving A&P a hard time in certain markets. The trouble is that A&P, possibly because of that albatross of a consent decree around its neck, possibly because of the disadvantage it must bear because of its size and unwieldiness, possibly because of the strongly entrenched status-quo stalwarts at Graybar, is not free to move the way its competitors can—and have been doing.

Alarmed over A&P's Position

Toby Coletti's statement last month before the stewards of Local 342 of the Amalgamated Meat Cutters describes the concern of those not in the company and yet dependent on the company. The union president was candid, at one and same time, in his alarm over both A&P's threatened position in the market and the chain's attempts to cut labor costs in the face of loss of business.

Here is what he said:

"All of us here today recognize that these (i.e., impending A&P negotiations for a new contract) will be the most crucial in the history of our union.

"All of the developments in the retail food industry (he had previously read excerpts of the October *Food Topics* study on the discount house) have had their impact on A&P. A&P workers who comprise one of the largest sections of the membership of our organization have been more affected by the growth of the discount centers than probably any other chain."

'A&P Now Second in N.J.'

"In New Jersey, where these discount centers have flourished, A&P which was once the first chain in terms of size and volume is today in second place.

"They have had to compete with operators who have lower rates for clerks on the grocery side and who operate six nights a week, and in some cases Sundays, without the kind of premiums our union receives for the A&P workers.

"This accounts for A&P's drive to save labor costs and many of the other problems facing the locals in the metropolitan area."

In summing up, he noted:

"We are not unmindful of the many pressures on A&P by their competitors and that the company will continue to make every effort to save labor costs."

Squeeze by Strong Local Chains

The pressure does not arise from subsidized food departments in discounters alone, though in some sections the 7¢ sale on chickens and the 29¢ special on coffee is driving conventional retailers, including A&P, to the point of distraction. There are other factors.

In its study last year on the New York market, *Food Topics* was given access to information concerning the competitive policies of three local chains, with direct reference to the tea company.

Chain A, a powerhouse in Brooklyn, noted that it liked little better than to open across the street from an established A&P. "The type of operation we have is slanted to a particular ethnic group," said the spokesman. "A&P may carry five brands of canned ham and we'll carry only one brand. But we carry four brands of tomato herring, we sell bulk pot cheese and bulk dried fruit, we sell better quality impulse items. We syphon off the trade that is drawn to A&P and we make them our customers."

Chain B, a comparatively small but fast growing company, decided three years ago it would sooner or later have to meet A&P head-on in a test case. Accordingly, it opened a store several weeks before A&P launched its unit a few hundred feet away. In the battle that followed, the trade watched almost hypnotized. The local chain chopped A&P's anticipated volume to 50% and has held its clear edge ever since. This story is true of other areas and other chains that locked horns with the titan.

Chain C operates a string of produce stores. Whenever it gets word of a new A&P lease, it makes every effort to open its own fruit and vegetable unit as close by as possible. The reason: A&P's almost notoriously shoddy produce department. A&P draws the traffic, the customers are often discouraged and they walk into the sparkling produce unit nearby.

A&P is not unaware of these events. It recently issued a flat order for clean stores but one observer reports that the store help are now so concerned with maintaining appearance—particularly produce—that they don't have adequate time to stock the shelves as thoroughly as they did previously.

The ultimatum regarding clean stores is one sign of change. Since 1957, of course, A&P has swung to 20,000-square-foot stores with ample room for general merchandise. Its Young Turks—eager to make good and assuming that the shortest cut to success is to do the opposite of the sales-oriented Graybar contingent—are beating the bushes for new ideas. Every so often they move out in the open and the industry has a choice opportunity of looking on.

One sign of this, trade sources report, are the mammoth orders of 15-inch screw-type snow throwers—some 40,000 of them—placed by A&P for sale this winter at $99.50, and equally imposing orders of boys' wear, men's work clothes and kitchen utensils. The recent Eastern Lawn, Gar-

den and Allied Products Trade Show in New York produced a stir when a swarm of A&P buyers showed up. A veteran Korvette buyer remarked, "I expected to see at least one A&P man at a show like this but frankly I've never seen this many from the tea company." There are other indications.

Appliances Merchandised

The mysterious Save-Co talks with A&P regarding a discount house food lease "in a city south of Chicago" may have similarly been the unsanctioned or unreported activity of Midwestern Young Turks.

In Oklahoma, too, the free hand is visible in labor negotiations. Here A&P sits down with the competition to formulate policy on union matters.

In Providence, R.I., and Washington, Pa., A&P units installed an array of small appliances on 15-foot islands in a test of electric housewares. Initial items offered included General Electric radios at $15.95 or $13.95 with $5 of food purchases; GE hair dryers, with similar food purchases; Sunbeam small appliances at one-fourth off list price with a $5 purchase or at a full price without a $5 market basket. In Milwaukee toys are also being sold on a layaway plan.

In Chicago's Chinatown, a new unit posted signs in Chinese on the windows and advertised that its sales personnel could "speak four languages."

These are scattered signs that the new blood is straining at the bit to get a new phase going in A&P history, a phase as revolutionary as the tea company's introduction of the first "economy" stores, the cash-and-carry system, the discount price policy, the vertically integrated manufacturing-retailing setup, the massive introduction of quality private labels. These are signs, too, that A&P may see in trading stamps one way of striking back at virulent discount house food competition since it cannot under its consent decree hit back on a basis that would entail losing money on sales.

But the clue to the success of the new program, the key to all of this maneuvering on so many different levels lies in the A&P's legal department, in the ability of the counsel the company is rich in to protect A&P from what may very well introduce a new wave of probes and possibly harassment by the administration. The trading stamps may well bring to the fore investigation by the Justice Dept. on the grounds that stamps violate the spirit of the consent decree and can lead to disaster for the small competitor. In its wake may follow new bills in the hopper, bills aimed at A&P that may also strike at all multi-unit operators.

Perhaps A&P chose stamps as the showdown area, an area which it feels it can contest successfully against federal probers. It is certain that if the introduction of stamps is not challenged, the A&P will move more swiftly in already carefully mapped directions.

25 The Super Market Invades the General Merchandise Field*

BY THOMAS C. BUTLER†

Will Super Markets go in the direction of the discount houses? Thomas C. Butler, president of The Grand Union Co. and 17 Grand-Way centers foresees a great potential in this new field. This is the text of Mr. Butler's speech before the Boston Conference on Distribution.

Selling food and general merchandise under the same roof is not new in American retailing. However, the practice has received greater attention in recent years because of the spectacular advances which have been made in promoting this sales technique. In our Grand-Way Discount Centers it is now possible to buy the week's groceries, then step into another area of the 100,000-square-foot store and buy a refrigerator in which to store those same groceries. All told, some 30,000 items make up the Grand-Way general merchandise or non-food lines.

Spectacular salesmanship, deliberately designed to catch the eye and to excite consumer interest is a Grand-Way trademark. The basic theory, however, is not new. In an earlier era of American merchandising, the General Store performed much the same function. Admittedly, the General Store didn't stock refrigerators. It offered an inventory restricted to basic, staple items which its rural clientele regarded as necessities. Its appeal, nevertheless, was exactly the same as today's SUPER Super Market: A wide variety of household necessities in one location, saving valuable time for its customers.

During the early years of Super Market development in the 1930's, food stores concentrated on selling groceries, meats, produce. Gradually, non-food selections were added to the Super Market line. Early ventures into non-foods usually had a direct relationship to the kitchen—pots and pans and similar household products.

Non-Foods Expand

The picture had changed radically by 1949. Supermarket Institute compiled statistics among the major chains at that time and revealed the following information about American Super Markets: 64 per cent of the

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† President, The Grand Union Co., East Paterson, N.J.

stores were selling health and beauty aids, 10 per cent had housewares, six per cent had electrical appliances, two per cent had dry goods, one per cent had florist shops and—perhaps most indicative of all—one-half of one per cent of the Super Markets had begun to sell shoes.

These percentages increased steadily during the next 10 years. From 1950, when non-foods represented $200 million in Super Market sales, the figure rose to more than $2 billion in 1959. Non-food sales now stand at approximately five per cent of total Super Market sales. In the single year 1958-59, suppliers of non-food merchandise reported these percentage increases among the Super Markets contracting for their goods: health and beauty aids, 8.7 per cent; toys, 16.4 per cent; housewares, 7.4 per cent, and phonograph records, 39.4 per cent.

Automotive Buying

Such statistics demonstrate that the traditional "food only" concept of the Super Market has been replaced by a new image in the buying public's mind. Why this image has assumed new dimensions, and to what extent, is a fundamental aspect of food retailing today.

At the close of World War II, there were 31 million automobiles on the American roads. Five years later, the number had increased to 49 million. In 1960, our highways are straining under the record number of more than 70 million cars.

The mobility which these automobiles provided led directly to the opening of districts outside the crowded metropolitan centers for desperately needed new home construction. An America-on-wheels became a suburban society, with approximately 70 per cent of the millions of new homes constructed since the end of the war built in areas surrounding central cities. The consumer who is buying these new automobiles and homes is working about 20 hours less per week than his grandfather did at the beginning of the century and has an income representing almost three times the buying power.

One-Stop Shopping Lure

Here, then, we have the major factors underlying swift public acceptance of the one-step shopping concept: mobility, suburban living, and an increase in leisure time. With demands of family, home ownership and community activity all competing for the consumer's extra hours, there has been a constantly increasing tendency in recent years to buy as much as possible in a central location.

Supermarketing is a prime example of consumer acceptance of this one-stop trend. One of the basic appeals of the Super Market is its concentration under one roof of the services and merchandise of perhaps a dozen smaller stores. Variety of merchandise is expanded and prices go lower, a difficult combination to beat. In 1946, the average U.S. Super Market was stocking 3,000 items. By 1950, this total had grown to 3,750

items, and today it stands at 5,800 items. Today, there are approximately 30,000 Super Markets in the country, with an additional 6,000 predicted in the next five years. If the consumer hadn't supported one-stop shopping, the number of items offered for sale in Super Markets wouldn't have increased by almost 100 per cent in 15 years.

By what yardstick, then, might we conclude that the one-stop shopping concept must draw the line at food? I submit that there is no hard and fast rule governing what people will and won't buy in a single store. With that in mind, Grand Union developed the Grand-Way idea of selling. Merchandise lines were expanded to include not only items related directly to kitchen use, but to embrace virtually everything needed in the home. We then applied time-proven Super Market methods to merchandise this expanded inventory: self-service, wide selection, low prices through high volume. This is the Grand-Way philosophy and I am certain that we are on the right track.

We are well aware that there are those in the Super Market industry who contend that non-food sales have only a limited future in the Super Market picture. They are entitled to their opinions, of course. We feel, however, that such a contention ignores the facts of present-day economic life. If non-food sales in America Super Markets can rise from $200 million to more than $2 billion annually during a decade in which a minimum of professional attention was given by Super Market management to non-food development, then how much greater is the potential with proper management? I submit that the potential for general merchandise sales by Super Markets has not even been calculated, let alone reached.

Like it or not, even those Super Market operators who see dark days for the non-food end of the business have had to get their feet wet to survive. Think carefully. Try to recall the last Super Market you visited which didn't have a display of health and beauty aids? And a magazine rack? They're as common in Super Markets today as baked beans. At one time or another, virtually all Super Markets will feature special offers, called "one-shots" in the trade, of encyclopedias, dictionaries, dishes. Kitchen aids, paper products, plastics, floor polishes and a hundred other items are now included in the basic inventory of a Super Market.

Marketing foods and general merchandise together has by no means been confined to the Super Market operator. Often, it has been the non-food merchant who has added a food line to his inventory to attract business. Many of the nation's largest department stores now have bona-fide grocery departments. These, in some cases, have been augmented by meat, gourmet foods and other departments of Super Market dimensions. More recently, several of the larger discount chains, both those specializing in hard and in soft goods, have opened Super Market-sized food departments. So, also, have some of the large drug chains.

Each of these moves has been motivated by a desire to cater to the needs of the new post-war consumer; to provide for as many of her shopping needs as possible under one roof.

Some of these new food departments are concessions, others are self-owned and operated. Whatever the control, it means that many other retailers—the department and drug stores, the variety and apparel dealers and the discount houses—recognize the pulling power of food. As a basic necessity, food provides customer traffic which is then exposed to the non-food merchandise. With due respect for the sagacity of our growing competition, we in food retailing feel that we have two tremendous advantages in meeting it. First, long experience in the highly competitive extremely low-profit field of food sales. Second, a large and loyal customer following. This following has been carefully cultivated—in Grand Union's case—for eighty-eight years.

Formed New Organization

We began our experiment in large-scale general merchandising in 1956. We had known for some time of the trends toward one-stop shopping, the increasing sales of non-food items in Super Markets and, of course, were well aware of the basic customer attraction in food. We were also well aware that the merchandising of hard and soft goods would require marketing skills and techniques with which we were unfamiliar. We were willing to learn.

An initial necessity was the recruiting of specialized personnel from the general merchandise field: buyers, store managers, salesmen, advertising and sales promotion men, and others. We recruited and screened carefully. We are still recruiting and screening as the Grand-Way operation enlarges. Our initial care in selection was well worth the effort, for it provided us with experienced personnel who were able to deal with problems peculiar to general merchandising.

Among those problems were new sources of supply. While rack jobbers and direct delivery organizations are essential to the operation we planned, a larger proportion of total requirements had to be purchased direct from suppliers and an experienced staff, familiar with the special requirements of non-food retailing, was able to establish and maintain our contacts in the field.

Accounting and inventory control practices could not be transferred intact from food retailing and applied to general merchandising. If we were to be successful in the non-food field, we had to admit at the start that we had a lot to learn. Again, it was necessary to recruit people who had experience in these particular skills. We also set up a Grand-Way advertising and sales promotion department, staffed with people who knew merchandise and how to sell it.

With the fundamental Grand-Way operation established and functioning within the framework of The Grand Union Co., we continued a

program of establishing contact with new sources of supply. We had to educate manufacturers, brokers and rack jobbers to the fact that Grand Union had entered the non-food field, not in a haphazard or temporary fashion, but in earnest. We made it plain that we were staffed, had the stores and the know-how to buy and market a full line of general merchandise on a competitive basis.

Calling our new stores Grand-Way Discount Centers was a logical application of the Super Market theory which we intended to apply to non-food selling. The Super Market's success in keeping prices low resulted from the theory of high volume sale of quick-turnover merchandise. The word "discount" carried a connotation which is particularly attractive to today's consumer, who is more price conscious than ever. Let's be candid: the manufacturer's list price which used to set the absolute retail standard is only a memory. Acknowledgment of this is found in the words "suggested list price" found on many price tags today. The discount house, almost entirely a post World War II phenomenon, is firmly established in the American market place. It would have been inconsistent for the Super Market, accepted by the buying public because of its ability to reduce food costs, to market general merchandise on any but a discount basis.

Experimenting Pays Off

We opened our first Grand-Way in Keansburg, N.J., in June, 1956. This was an existing Grand Union Super Market which had been doubled in size, to 40,000 square feet. The additional 20,000 square feet of space was stocked with hard and soft goods—dresses, major appliances, toys, sporting goods, phonograph records—a multi-thousand item display of general merchandise.

We used the Keansburg store as a merchandising laboratory for approximately a year and a half. Consumer preferences were determined, slow-moving items were replaced, seasonal buying was accommodated, displays were enlarged or made smaller.

We discovered, for instance, that the more open and available the merchandise was to the consumer, the greater was the impulse to buy. This should not have surprised us. Super Markets for years have allowed the consumer to examine the merchandise—to pinch and squeeze, to turn over and hold up to the light.

We also learned that the movement to the suburbs brought us many shoppers who wanted large and varied displays of merchandise. They had been accustomed to shopping in metropolitan department stores. Many stocks and selections had to be enlarged to provide the basis for comparison so dear to these shoppers.

We had been correct, happily, in theorizing that non-food traffic would assist food buying and vice-versa. For example, in a later adaptation of the Keansburg experiment, we enlarged a conventional Super Market to

41,000 square feet and created a Grand-Way. The existing Super Market had been recording a volume of $18,000 a week. Soon after the market reopened as a Grand-Way, food sales had risen to $45,000 per week. Thus in the same food department, with not one square foot of space added, volume rose by 150 per cent because of additional traffic generated by the general merchandise section.

The first store conceived as a Grand-Way from drawing board to opening day was the 60,000-square-foot market opened in Danbury, Conn., in July, 1958. Since that time, we have built Grand-Ways only as complete stores, not as enlarged food markets. Their size has grown from the 40,000-square-foot market in Keansburg to standard 60,000- and 100,000-square-foot stores which we are now constructing. The 15,000-item non-food inventory in the earlier stores has grown to the 30,000-plus item general merchandise inventory now carried.

At present, there are 17 Grand-Way Discount Centers in New York, New Jersey, Connecticut, Vermont and Florida. They total 1,193,000 square feet in size. Four of them were opened this year. Three more are under construction in New York, Florida and Connecticut. Construction will soon begin on two others, in New York and Massachusetts. Our real estate department has additional sites under consideration and is constantly searching for new locations.

Non-Foods Bring Higher Profits

In four short years we feel that we have come a long way in this new kind of food and non-food merchandising. Our Keansburg Grand-Way opened with appliances and other non-food merchandise displayed on conventional grocery gondolas; now we have fixtures especially designed for general merchandise display. The first store was operated on a strictly cash-and carry basis. We soon learned that department store techniques of credit buying and lay-away plans were necessary, particularly with the more expensive appliances such as refrigerators, television and hi-fi sets. Grand-Ways are self-service as far as is practically possible, but a completely inflexible policy in this regard would be self-defeating. Cameras, for example, need the presence of qualified salesmen to advise, sell and instruct.

At this point, perhaps I should define The Grand Union Company's business position. All this talk about Grand-Way might make your forget that we are still basically a food chain.

While operating 17 Grand-Ways, we also have more than 440 Grand Union Super Markets in 10 eastern states, the District of Columbia and Puerto Rico. We plan to open 25 conventional food markets during the current fiscal year. The Super Market is here to stay; there's no doubt about that. Hundreds of new communities have been created by the building boom since the war and a continually rising population indicates that we're not going to run out of customers.

Non-food development within the confines of the conventional Super Market will be limited by the size of the store, the extent of nearby competition and other factors. But I feel that the $2 billion in non-food sales which Super Markets now register annually is significant. It shows a trend which the conventional Super Market operator must take into consideration if he is to realize the most profitable return on his investment.

Super Market operators, like everyone else, have been caught in a rising spiral of the cost of doing business. Inflationary pressure, more costly stores, increased labor rates and a host of other economic factors have contributed to this. Super Markets, with their traditionally low net profit margin of less than two per cent must exploit every means of profit increase. Today's well-run non-foods department can operate at substantially higher gross margins than can be generated in the food departments. Here is one way to keep food costs low. It is only logical that a food chain should be interested in its development.

In returning to our original theme, "The Super Market Invades the General Merchandise Field," we can now trace several developments which have placed television sets alongside canned tomatoes in our stores.

A steadily increasing volume of non-food sales in conventional Super Markets justified a reappraisal of the role of general merchandise in food stores.

Consumers in recent years have evidenced a growing preference for one-stop shopping. The traditional Super Market proved this. We at Grand Union have proved to our satisfaction that the pattern does not stop with food.

Some discount houses, department stores, drug—even variety and apparel chains—have become direct competitors of the Super Market by the addition of food departments as adjuncts to their general merchandise sections.

The rising cost of doing business has made it necessary for the Super Market operator to examine every logical avenue, leading to increased sales, better profits.

So there you have it. You might say we have come full circle; that Grand-Way is yesterday's General Store. So it is. The General Store served a specific need in its time. So does Grand-Way today. The population swing is away from the central city concept which dominated our life for the first half of this century. This is creating a buying pattern in many ways paralleling the social situation characteristic of an earlier time.

How far will we go in the general merchandise field? Only time, continued experimentation and the housewife can answer that. We will expand or contract our inventories in response to consumer reaction. Grand-Way is a flexible idea. We will be learning for a long while to come, but feel definitely that we are on the right road.

26 What's Come Over Old Woolworth?*

BY CARL RIESER

A store manager could make $75,000—yes, $75,000—and the dividend was never skipped. But the great chain was living in yesterday's world. Now it is "growing up" its stores to meet its fierce new competition.

Massive, eighty-year-old F. W. Woolworth Co. is belatedly joining the postwar world. The company that originated the variety-store chain as a brand-new pattern of retail merchandising has been agonizingly slow in following the postwar economy upwards. It was slow in moving into the suburbs. It was slow in upgrading its merchandise, slow in breaking away from the restrictions of its old lines and getting into apparel and new fields. It was slow in enlarging and modernizing its stores. It was slow in converting to self-service.

Woolworth, the nation's fourth-biggest general merchandiser, with an estimated volume last year of $915 million, still dwarfs its competition in the variety field: its volume is a bit more than the combined business done by its closest rivals, W. T. Grant and S. S. Kresge. In 1958, in fact, Woolworth's $865 million in sales accounted for about 24 per cent of the $3.6-billion sales of all variety stores. But the average volume of a Woolworth store was only $402,000—the poorest showing among the seven biggest variety chains. Kresge, by contrast, averaged $544,000 a store, and G. C. Murphy led the field with an average of $647,000.

Woolworth broke through the ancient 5 and 10-cent ceilings as long ago as 1932, but it moved so tentativtely into higher-priced goods that today 85 per cent of its sales are accounted for by items selling for $3 or less. In most Woolworth stores, soft goods account for no more than about 18 or 20 per cent of total sales, whereas these goods account for 50 per cent or more of the volume of the larger stores of its competitors.

All of the foregoing explains Woolworth's unimpressive growth record. Using a 1947–49 index as the base, Woolworth sales grew 42 per cent by the end of 1958. Grant registered an 86 per cent increase, Newberry one of 71 per cent.

The Curse of Success

Ironically, the management techniques that gave Woolworth its early success are the same ones responsible for its lackadaisical pace in the Forties and Fifties. The company assured itself of a steady supply of well-trained, thoroughly experienced managers by putting its personnel, above the level of salesgirls, through the Woolworth "ladder" of advancement, and all executives of the company climbed this ladder step by step. This system did produce sound and experienced executives—but it also tended to turn them out with a civil-service outlook, a compulsion to play it safe. Woolworth managements as a result were inbred; imagination seemed far less important to a Woolworth man than staying cautiously in line. A case in point is the attitude of one of the company's powerful district managers. Asked why he wasn't experimenting with an innovation in Woolworth merchandising recently developed by headquarters in New York, he explained candidly: "We're responsible for one experiment; let someone else take the risk on *that* one."

Woolworth protected its profit margin, traditionally small in the variety field, by relying on the cheapest kind of sales help. The result was a horrendous turnover rate among its salesgirls—43 per cent. This could be borne when cheap variety goods were all that the sales force was asked to handle, but it became an impossible burden when the need was to upgrade and broaden the lines.

Woolworth grew by expanding far and wide: it now has some 2,200 stores in the U.S. and Canada alone, about three times the number operated by W. T. Grant. Only the Great Atlantic & Pacific, with 4,200 outlets, surpasses Woolworth on this score. And Woolworth operates in all of the fifty states—or will when a store is opened in Alaska this spring—whereas even A & P does not touch whole areas of the country, and is not truly national. The trouble was that after the war many of Woolworth's stores turned out to be in the wrong places, and leases on these suddenly less desirable locations made it hard for Woolworth to pull up stakes and pursue its customers to the suburbs.

Woolworth has continued to show a small profit. It has never yet failed to pay its dividend, a steady $2.50 since 1947. But the chief reason it didn't fail to pay, in the postwar years, was the dividends the company received from the big British chain of F. W. Woolworth & Co., Ltd., in which it has stock control. In 1958, for instance, Woolworth netted $32 million after taxes; $12 million of this came from overseas. Without that $12 million, the company would either have had to cut its dividend or curtail the capital investment desperately needed if Woolworth was to catch up with the times.

The problem of money and concern about leadership brought about a quiet and genteel revolt among the larger stockholders on Woolworth's

board of directors. In 1953, some sons of the men who, with the founder, had made fortunes out of the Woolworth company, set up the Finance and Policy Committee, headed by the president. There has never been a split between management and the new group, certainly not an open one. The committee simply stepped into a power vacuum—albeit deliberately and slowly—and has since played a key role in waking up Woolworth. Two years ago the committee chose Robert C. Kirkwood for the presidency. Until a short time ago, a member of the Finance and Policy Committee privately admits, "Woolworth had tired leadership, men close to retirement, afraid to try anything." But Kirkwood? "He has made an important difference in the morale."

Kirkwood was fifty-three when he took over the presidency; his two predecessors were over sixty when they took office. Kirkwood made the same long climb that all Woolworth executives make—he started thirty-six years ago as a "learner" in the Provo, Utah, store at eighteen—but unlike many of the others he didn't have all of the venturesomeness beaten out of him on the way up. In his quiet, mild-mannered way, Kirkwood has sponsored some radically new ideas, the like of which haven't been seen around the company since the founder's day; e.g., a chain of "freestanding" cafeterias under the name of Harvest House, and a system of roadside horticultural shops, both run by Woolworth management independently of the variety stores.

Most of the changes Kirkwood is making have only just begun to work through the enormous chain. Their full effect will not show for some time. Kirkwood has not as yet had any profound effect on the company's operating ratios or profits. The changes he is making range over practically every aspect of the business: upgrading the quality of the salesclerks, improving executive training, experimenting with credit, expanding the advertising budget, cutting costs and paper work, putting more apparel and other soft goods into the stores.

In one way or another, Kirkwood is working to build up Woolworth's over-all volume, for like most mass merchandisers he sees this as the main avenue to more profits in the highly competitive, slam-bang, price-cutting retail trade of today. In essence his problem is one of logistics, involving an intricate relationship between profit margins, goods, turnover, and actual physical space. He is dealing with a wide variety of variety stores, in all kinds of locations.

Take a walk through store No. 1,070 in Manhattan. One of Woolworth's biggest stores, it rejoices in a wonderful location, running between Thirty-third and Thirty-fourth Street at Herald Square, between Macy's and Gimbels. About a quarter of its volume comes from a cafeteria, lunch counters, pizzerias, soda fountains, and other food operations dotted about the store. The place is a bazaar, a melee of signs, goods, displays—and customers. It has three floors, 65,000 square feet of selling space, 500 employees, and does about $6 million a year in sales.

But Woolworth also has small stores, new stores, old stores; bright, clean, self-service stores with 35,000 square feet of selling space in suburban shopping centers; drab 3,000-square-foot stores in downtown areas, where the counters are the old, familiar kind, arranged in rectangles, with clerks in the middle. Naturally, there is an enormous range in the sales of these stores. Woolworth divides its stores by volume into four groups. There are nineteen stores in the top category, with $1,500,000 to $5 million or more sales; 169 stores in the $750,000-to-$1,500,000 bracket; 1,059 with $250,000 to $750,000; and 717 with less than $250,000. (These figures do not include Woolworth's 230 stores in Canada.)

In these statistics is the nub of the problem that has faced Woolworth for more than a decade. The difficulty is not that the company has some low-volume stores, but that it has so many of them. As the oldest and biggest of the variety chains, Woolworth entered the postwar era with more of those small downtown stores than any other chain. In some cases the customers moved away. In others, the stores are simply too small for modern merchandising methods. In any case, many of them are unprofitable. But, as noted, Woolworth is stuck with long-term leases, and it is less costly to keep the stores going—unless they show a loss—than to buy back the leases or to pay rent on empty stores. One retired executive says, "There are 200 stores that Woolworth would be happy to give you if you'd take the leases off their hands."

One obvious way for Woolworth to boost its volume is to close these antiquated stores when the leases expire and to open new, larger ones, and this it has been doing. In the past five years it has closed 254 stores and relocated 135 of them in larger quarters nearby. The chain has been undergoing a major overhaul of its far-flung physical plant—modernizing stores, converting some to self-service, and opening new ones, mainly in suburban shopping centers. Now Woolworth is opening a new store on the average of one every two and a half working days, or about 100 a year, as against one every four days a few years back. It is also remodeling a store every four working days. All told, of Woolworth's 2,200 stores, about 1,600 have either been built or improved in the past decade, 1,050 of them in the last five years. Today, about half of the Woolworth stores are self-service; and whereas in 1953 only seventy stores were in shopping centers, slightly more than 525 now are out of the city.

"Just Plain Economics"

But pursuing the customers to the suburbs with appealing new stores is only half of the complex logistical problem Kirkwood is grappling with. The other half involves the goods Woolworth sells. Not the quality—the chain's reputation for selling good stuff at low prices is one of its greatest strengths—but the variety of merchandise. The postwar era has seen a hectic scrambling in retailing: the broad tendency has been toward general merchandising, which means that one type of retailing has pirated

goods from other types. Thus a lot of the traditional items carried by variety stores, such as notions and small hardware, have been taken on by supermarkets, automotive chains, discount houses, and other vigorous competitors. And variety stores have moved into apparel, furniture, records, and other goods.

"We are out for a wider cut of retail business," says Kirkwood. "We are forced to it. We no longer enjoy being one of the few places where our standard items can be bought. We have had to look to other items for more business, and this is why we are in higher-priced goods. Also the demands of the average family have been upgraded. They had more money to spend. It's just plain economics."

As a result of "plain economics," Woolworth stores now carry such items as dolls for $19.95 and even pool tables for $89.98. Kirkwood still has to solve the problem of apparel and other soft goods, which most variety chains have long since made an important line in their stores. Originally Woolworth shied away from soft goods as the result of a considered policy laid down by administrations prior to Kirkwood's. Woolworth people have long felt that by emphasizing these goods above variety-store goods—the profitable bedrock of the business—some of their competitors had blurred their identity.

The great virtue of apparel and other soft goods, in the eyes of variety-store merchandisers, is that they increase not only the volume but also traffic in the stores. On the other hand, these goods in general yield a lower gross margin than the traditional variety goods do. (Gross margin is the difference between the cost of the goods and the price they fetch.) Soft goods start with a reasonably good gross margin—about 40 per cent—but because they are largely seasonal and excess stocks must be cleared out at the end of each season through clearances, markdowns bring the over-all margin down to about 35 per cent.

There are other drawbacks. Managers long accustomed to handling variety-store goods are afraid to take a risk on highly seasonal merchandise that they don't really understand—particularly when, as in the case of Woolworth's managers, they are paid on a percentage of the profits. Over the past year Kirkwood has been conducting an intensive test with apparel and soft goods in about sixty stores. In each store about a third of the space has been devoted to what Woolworth people familiarly call "5–10–11." Departments 5, 10, and 11 are the ones that handle men's, women's, and children's clothing, blankets, sheets, curtains, and so forth. This has required elaborate redesigning of the stores, for these items take up far more display space than variety stuff, and it has taken ingenuity on the part of the designers to cram them into the limited space available. Woolworth figures that a store must have at least 18,000 square feet of selling space to handle the expanded 5–10–11. Woolworth executives call this problem "the fight for space," and despite all the building and rebuilding that the company has done over the past five years, it is still quite a fight.

It takes about two years to plan, erect, and open a new Woolworth store. This means that the stores Woolworth is now opening were planned just before Kirkwood took office. They range up to about 35,000 square feet, with the average at 18,000, which is about 50 per cent bigger than the average store Woolworth was opening five years ago. But there are also a number of new stores coming along that range below 18,000 square feet—a few are as small as 10,000—and these are hopelessly inadequate for variety goods plus a full line of soft goods.

Kirkwood has been pushing up the average size of Woolworth stores now being planned, and some of those to be opened in the next few months will be 45,000 and even 60,000 square feet in size. He talks about "growing our stores up" and eventually building Woolworth stores in big shopping centers with 100,000 square feet of space, which is the size of a few of the biggest stores built by competitors. Says Kirkwood, "We want to remain basically a variety-store chain—and we want to continue to be the best variety-store chain in America. But we are going to add to that the higher-priced lines, soft goods, furniture, and appliances." This statement of policy brings cheers from younger Woolworth executives who have long been impatient for the company to "grow up" it stores to challenge the discount houses and other new competition.

Essence of Woolworth

Woolworth's need for more volume—and profits—explains why President Kirkwood has brashly decided to break out of the restrictions imposed by the four walls of the variety store and to put Woolworth into the garden-center business and at the same time to expand its cafeteria business. In both instances, particularly in the case of cafeterias, he is capitalizing on established Woolworth strengths.

Woolworth is the greatest commercial provider of prepared foods in the country—in fact, in the world. The annual sales of its food operations are some $100 million, according to the best trade estimate; Woolworth won't confirm or deny the figure. This enormous business began with unpretentious root-beer and hot-dog stands, which were originally put into the stores to attract traffic. Now there is everything from elaborate cafeterias (in eleven stores) and bakeries (278) to pizzerias, soft-drink stands, lunch counters, or soda fountains in about 1,600 stores. With some justice, Woolworth claims that it, and not the Pilgrims, put turkey into the regular diet of the average American by making large-scale contracts with turkey growers twenty-five years ago and reducing the price of the turkey dinner. Today the chain buys the unimaginable total of 5,500,000 pounds of poultry a year.

The food operations is known as Department 34 in the stores, and it is Department 34, of course, that injects a major strain into that indefinable but distinctive aroma of most Woolworth stores—the lingering scents of roasted turkey, fried hamburgers, peanuts, candy, perfume, and people. In recent years Woolworth has spent considerable sums of money on air

conditioning without noticeably lightening the atmosphere in the old stores. Some of the newer stores, however, are less pungent.

Harvest House, the name for the new cafeterias, is an effort by Woolworth to break away from the suggestion that "Woolworth food" conveys —counter stools, mass feeding for mass tastes, and store hours. The new cafeterias are open longer hours than the stores, and one executive describes them as "more refined, dignified, and upgraded" than the food operations in the stores. The first Harvest House was opened in Montreal in May, 1958. There are now four more, in Dallas, Philadelphia, Miami, and St. Petersburg, Florida. They handle from 225 to 300 people at a time.

The first Woolworth roadside garden center opened in Santa Clara, California, early last year, and a score of similar centers will be in operation around the country by this spring. The idea grew out of Woolworth's great success in its stores with all kinds of potted plants. The new centers will sell everything from nursery stock and tools to garden furniture and outdoor grills.

The Man Who Liked Redheads

As might be expected, Kirkwood's "upgrading" at Woolworth has created some stresses and strains. Advertising, for example. Woolworth stores never used to advertise, except on very special occasions. They didn't have to; all of the stores were downtown and the show windows, crammed with specials and bargains, drew people in off the streets. But with the move to the suburbs and the new competition, Woolworth began to need to tell people it had moved into all kinds of new goods itself.

So in 1955 the chain started its first organized, systematic advertising program. It began in a modest way, first on radio and in magazines, which it shortly abandoned for newspapers. Three years ago almost every other major variety chain placed more newspaper linage than Woolworth. Kirkwood has been pushing this up. This year the company will spend some $7 million in some 500 newspapers, which will make it one of the major retail advertisers, about even with W. T. Grant. Its ads are prosaic and stereotyped; each one pushes about a dozen "specials" and features low prices. Coordinating such a massive new program has not been easy, nor has it been simple to teach managers how to use advertising effectively. They have had to learn the most basic rules—such as the need for laying in enough stock beforehand to handle the demand created by advertising. Some delightful, if enigmatic, idiosyncrasies in the use of advertising can, and do, show up in a group of 2,200 managers. There was, for example, the case of the western store manager who advertised a door prize for the first redheaded woman to show up after the store opened. This baffled headquarters, which couldn't figure why the manager thought a lure for redheads, who are greatly outnumbered by all other colors, real or dyed, would increase traffic. One of the New York executives concluded, finally, "I guess he just likes redheads."

Rebuilding the Woolworth Ladder

The caliber of Woolworth clerks has never been high. It never had to be—before. Customers might be annoyed by sloppy or indifferent service, but after all about the only thing required of a Woolworth clerk was to slip a tube of toothpaste or a set of hair curlers into a paper bag, and make change. Selling apparel or soft goods, however, involves considerations of size, color, and style. Suddenly it got to be a matter of some concern to Woolworth that its general lack of interest in its clerks had brought matters to such a state that the annual turnover rate among its regular personnel had reached the almost unbelievable figure of 43 per cent.

Kirkwood put the personnel department—Woolworth never had one until 1955—under a vice president, and the department began making some changes. Stores now screen job applicants to weed out the obviously unfit and the drifters. Incentive pay scales for clerks were set up. A sales training program was established. Simplest of all, senior clerks were asked to pay some attention to the new girls, a lot of whom, it developed, quit within the first few days simply because no one "bothered to notice them." As a result of all this, employee turnover has been cut to about 20 per cent a year, about the usual department-store level.

More important for the long run are the changes that Kirkwood and his personnel people have been making in the training of its "learners," those young men on the bottom rung of what Woolworth people call the "ladder." It is from this group that Woolworth, which promotes only from within, eventually draws its future top executives and leaders. The incentive for climbing the ladder is Woolworth's profit-sharing plan, by which all executives from manager up are compensated, and often richly compensated. Woolworth people regard profit sharing as the basic reason for the company's success and growth. For the young manager making perhaps only $6,500 a year out of his small store, there is the hope that with hard work and persistence he can work up to a store yielding no less than $75,000 as his cut of the profits.

But the drudgery of the work at the beginning, plus the prospect of long years waiting for advancement, repelled college graduates. The few who did set foot on the ladder often found the store managers hostile toward them, and they dropped out. The lack of college men hardly bothered Woolworth in a day when comparatively few Americans went to college, but in terms of the postwar world, it obviously meant that Woolworth was no longer attracting the highest grade of "learners." Furthermore, Woolworth discovered that it had a fearful turnover rate there, too: seven out of eight youths were failing to qualify as managers.

Kirkwood jacked up the whole program. Recruiters were sent into the colleges. Now about a quarter of Woolworth's "learners" have had at least some college education. Kirkwood's personnel people also organized and systematized the training program; it has been divided up into periods,

lasts a specified four years, and has been bolstered with a series of manuals and regular examinations. The dropout rate has now been reduced; a year ago one out of five men went on to become store managers, and the rate is constantly improving.

Kirkwood has also made some adjustments further up the ladder. Formerly, one of the troubles was that advancement went along in such a routine, civil-service manner that men who got to the upper levels got there at rather advanced ages. There was another rather curious aspect to this delay in advancement. Woolworth's profit-sharing system built some extraordinary inequities into the pay scales that men got as they moved up the ladder. A man is never asked to take a cut in salary when he moves out of a store managership. For instance, several managers might start moving up through the middle of the ladder at the same time. One might be earning, say, $20,000 from his store, and the other might be making perhaps double that at his store; the disparity in their incomes remains even though they hold the same jobs as they move upward. Inequities of this sort could be compounded by a lucky break. There was the famous case of a superintendent of a group of midwestern stores. At that time, superintendents were paid a percentage of the profits of just the stores in their small group. There was one very big store in this man's district and the store had a very big competitor. The year before the superintendent was to move on up the ladder, the competing store burned down, boosting the Woolworth store's business—and trebling the superintendent's profits that year. "He was," says a Woolworth executive, "a high earner for the rest of his career." Not long afterward, Woolworth shifted back to paying its superintendents out of the profits of a whole district.

Kirkwood has now begun to pick out the obvious comers at an earlier age and push them on up the ladder. "Now they have at least ten years at the top, if they get there," comments one official.

$3,500,000 Worth of Hula Hoops

Kirkwood is confident that Woolworth's basic structure is both strong enough and flexible enough to handle the new demands being put upon it. For administrative purposes, the great Woolworth empire in the U.S. and Canada is divided into eleven districts, run by managers who have considerable say about profits, personnel, store construction, and other important matters. The districts, averaging about 200 stores apiece, are in themselves as big as some of the smaller independent variety chains, and they are very nearly self-contained chains. While the district merchandising men have no control over the goods bought by Woolworth—the thirty-two buyers in New York headquarters decide that—they do have a veto power, and can say what will *not* be sold in the stores in their districts. (The Canadian division is an exception, its merchandising men double as buyers.)

Woolworth has always been known for fast-moving merchandising,

and its forte is "specialization"—i.e., promotional selling of a hot item. It can be a set of three Italian aluminum pots for 89 cents, women's Capri pants for $3.95. When the buyers find a hot item, the merchandising men in New York usually try it out in sixty test stores, and if it goes well they flash the districts, which in turn flash the store managers. The speed of this communication network awes manufacturers who have had any experience with it; the results also awe them. The classic case was the chain's fast exploitation of the great hula-hoop craze in 1958. In six weeks Woolworth stores sold some $3,500,000 worth of hoops at about 98 cents apiece.

The Great 5¢ Store

Most of the good things about Woolworth, and some of the bad, were the creation of its founder, Frank W. Woolworth. He was twenty-six when he opened his Great 5¢ Store in 1879. He was the first mass merchandiser to go straight to manufacturers, cutting out the wholesaler and jobber. He put his goods out on counters, where people could see them and touch them. Frank Woolworth created a profit-sharing system for his managers, long since copied in one form or another by every major variety chain. But he was also the man who said, "We must have cheap help or we cannot sell cheap goods," a credo that lingered on in the indifference of the chain toward its help.

In 1912 he capped his career by engineering the great merger that pulled together the major chains in the variety-store business. The founding partners who brought their chains into the "syndicate" all made fortunes out of the venture. This tight little group owned most of the stock and it ran the company. But the founder died in 1918, and by the early 1930's these men had either died or were inactive.

Control of the company thereupon passed over to the big management-controlled board of directors. There was no more adventuring. Another great pioneer in mass distribution, Sears, Roebuck & Co., was anticipating the future by shifting away from mail-order business and setting up retail stores on the rims of cities. Woolworth couldn't summon the daring to push its price ceilings up to 20 cents until 1932, or to drop all ceilings until 1934—by which time all the other big variety chains had long since moved up.

New pressures were beginning to tell. The cheap-labor policy, for instance, was cracked by unionism and the New Deal, and Woolworth's costs began rising. But these pressures were obscured by the chain's generally good showing during the depression. Woolworth never missed a dividend.

Where Were the Young Men?

Recognizing the dangers of a policy of promotion from within based on regular succession, the founder had made retirement mandatory at

sixty. But during the war the board of directors, pleading manpower shortage, pushed the age limit up to sixty-five—and then proceeded to ignore even that limit.

Alfred L. Cornwell, who became president in 1946, was sixty-two on taking office. In 1952, when Cornwell, then sixty-eight, was about to retire, the man the board turned to was James T. Leftwich, the treasurer of the company. He was sixty-three. "I was astonished," says Leftwich modestly. "I hadn't aspired to the job. They had some other men who could have taken the job but they weren't seasoned and they didn't know anything about financial affairs."

Lack of seasoned younger men at the top wasn't Woolworth's only problem. In the earlier postwar years the company had pursued a moderately ambitious program of modernization and expansion, paid for out of earnings. By 1953, when the building restrictions of the Korean war were relaxed and the company could once more go ahead, this program no longer looked big enough to cope with the ever increasing retail competition.

Furthermore, the company felt the need of beginning a serious program to convert to self-service and to move into suburban shopping centers. The variety-store field as a whole had been very slow to take up these two vital developments in modern mass merchandising, and Woolworth deserves some credit for moving into both earlier than the other major chains in the field. Yet by the end of 1952, Woolworth had only three self-service units and less than seventy stores in shopping centers. The expansion and modernization program now needed was clearly too big to be financed out of earnings.

At this crucial point came the quiet and genteel revolt on Woolworth's board referred to earlier. It was engineered by the three men who represented the old families' remaining stakes in the company:[1] Allan P. Kirby, chairman of Alleghany Corp., a son of one of the co-founders, who owns the largest block of stock (356,485 shares); another co-founder's son, Seymour H. Knox, chairman of the board of the Marine Trust Co. of Western New York (86,995 shares); Fremont C. Peck, son of the first general manager of Woolworth (12,325).

These big stockholders, already concerned over the weaknesses in management, were also worried by the imminent plunge into debt. "We wanted to get in a group around the steering wheel to stabilize the company," says one of the group. "It wasn't getting anywhere. We were trying to restore purpose and imagination." The result was the Finance and Policy Committee, which has since 1953 exerted an important influence

[1] The Woolworth family interest is now largely gone. The founder's surviving daughter, Mrs. Jessie Donahue, still holds a sizable block. But granddaughter Barbara Hutton von Cramm long ago sold her Woolworth stock. In all, the founders' stock represented on the board today totals only about 5 per cent of the company's 9,703,-606 outstanding shares.

on the company. It is chaired by the president (Woolworth has no board chairman), and acts in an advisory capacity to him. Besides Kirby, Knox, and Peck, the committee now also includes Cornwell, Leftwich, and two other retired executives, and Harold Helm, chairman of the Chemical Bank New York Trust Co. The committee meets before every board meeting and discusses the matters that will come up at the full board.

The Price of Progress

Under Leftwich, management did restore some of the "purpose and imagination" the stockholders found so distressingly absent. Leftwich, who took office in 1954, regarding himself only as an interim president, was willing to listen to advice, particularly from the younger executives. He launched the first organized advertising program, set up a research department, established a big bookkeeping center in Milwaukee. Above all, Leftwich pushed the expansion and modernization program that was later stepped up by Kirkwood.

This has cost a lot of money. In the five years from 1954 through 1958, the company spent $186,900,000 on capital improvements. To help pay for this, it placed $75 million in twenty-year notes in 1953 and 1954 with the Equitable Life Assurance Society. In 1957 and 1958 it got another $35 million in fifteen-year notes from several pension funds. Even with these borrowings, Woolworth's profits were not, and are not, sufficient to sustain a program of such magnitude. What has made it possible for Woolworth to carry out its program—and pay its dividend too—has been that recurring windfall, dividends from abroad.

The Energetic British

F. W. Woolworth & Co., Ltd., today has some 1,030 stores, employing 70,000 people, throughout the British Isles, and another seven stores in the West Indies and Southern Rhodesia. British Woolworth, 52.7 per cent of whose common stock is owned by the U.S. company, is by far the biggest variety-store chain in Britain, as well as one of the biggest chains of any type.

British Woolworth has energetic, smart management. Since the relaxing of building restrictions in 1951, the company has added some 270 units—about the same number, it is worth noting, that the American company has added in the same time. British Woolworth has also modernized many of its older stores and has long since broken through the old 3d-and-6d price barrier.

The British company has also had luck. The very thing that has hurt the U.S. company—i.e., those long leases on downtown stores—has been a boon to the British company. Though social and economic changes in Britain since the war have been great, there has been nothing on the scale of the massive move to the suburbs in the U.S. The old stores are still doing a fine business.

The comparison between the two companies is striking. In 1958 the British company produced a "trading" or operating profit of $75 million and a net profit after taxes of $33,700,000, or about 16 per cent on its net worth of $209,400,000. Investors quite naturally favor the stock, and the price is up to 36.6 times earnings. The total market value of the common stock (there is also a preferred stock) is about $1.25 billion, and the market value of the American company's holding is some $680 million.

By contrast, the much larger American company—with its net worth of $362 million and its 85,000 employees—had an operating profit in 1958 of $66,200,000. This figures out to a 7.7 per cent net on total volume of $865 million. Its total after-tax profit of $32 million, which included the foreign dividends, was only 9.1 per cent on its total equity. As might be expected, investors have not been too keen on Woolworth stock. From its postwar 1946 high of 62½, it declined to a low of 35½ in 1957. However, in the past two years investors, anticipating a turn, have sent it up to a new high of 65, or sixteen times earnings. At that price, total market value of the Woolworth stock is about $630 million, or $50 million less than the market value of the company's holding of British stock.

The U.S. company is also getting increasing dividends from its thirty-four-year-old West German subsidiary, F. W. Woolworth Co. G.m.b.H., which is 97 per cent owned by the parent company. Last year the German company turned over $2,285,000 in dividends; this was offset, however, by loans back to the German company. In the five years through 1958, U.S. Woolworth received a total of $53,500,000 in dividends from Britain and Germany as against the $107 million after-tax profit yielded by its domestic business.

There is a curious twist to Woolworth's foreign story. Since British law doesn't require a corporation to reveal its sales, management does not release figures on the British subsidiary's sales. But this reticence makes the U.S. Woolworth company unable to conform to the Securities and Exchange Commission's requirements for full financial disclosure. Hence the company would undoubtedly have difficulty issuing a stock prospectus if it had a mind to issue any new stock. This has hardly been a hardship. The chain hasn't issued a single new share since 1912. When Woolworth needed money, as it did recently, it borrowed privately. But on the other hand, the Finance and Policy Committee has talked about adopting a stock-option plan for managers and executives, and this it couldn't do without a prospectus.

Woolworth admits to no plans in the immediate future for such a move. Nevertheless, with Woolworth's long-range good in mind, Kirkwood has been moving around in financial circles and giving talks on the company's plans and prospects. He is the first Woolworth president in decades to do so. He recently addressed a meeting of security analysts in Boston. ("It really wasn't the ordeal he expected," says a Wall Street acquaintance.) Kirkwood likewise accepted an offer to sit on the board of the

Irving Trust Co. Woolworth executives haven't been in the habit of sitting on outside boards; they were trained up under the old Woolworth policy that more or less discouraged store managers even from joining local service clubs. In terms of Woolworth's history and of his own, Kirkwood's modest beginning is a real breakthrough.

Kirkwood, like most Woolworth executives, never worked anywhere else save at Woolworth. On graduating from high school in Provo, Utah, in 1923 he became a learner in the local Woolworth's, and a year and a half later, at twenty, he became manager of his own store (No. 1362) in Denver. In 1943, five stores and eighteen years later, at the age of thirty-eight, Kirkwood broke out of the stores and became a superintendent. By 1952 he got to New York in the executive headquarters. In the next few years he was deeply involved in Leftwich's projects in various capacities and was clearly earmarked as a candidate for the top job. The Finance and Policy Committee singled him out among several other candidates, and he assumed the presidency on June 11, 1958.

Kirkwood is in many ways the model of a Woolworth man: quiet, discreet and soft-spoken. But he also says that "this company could have died a horrible death if it hadn't been for a few men who dared to make changes." He is himself one of the select few.

27 Caterer to the Outdoor Man*

Abercrombie & Fitch's eight floors are a hunting ground for sportsmen seeking equipment and garb for anything from a safari to a croquet match.

Ask any amateur sportsman what Abercrombie & Fitch Co. stands for, and he's apt to answer: It's the store that has everything. Officials themselves would be the first to disclaim this: Abercrombie doesn't try to outfit teams, for example. But it's quite likely that nowhere else could an individual walk in and come out with aluminum snake leggings, camel saddles, equipment for shark harpooning, as well as more workaday leisure and outdoor items.

"We would describe Abercrombie & Fitch as the place where a sportsman can get anything he needs—under one roof," says Pres. John H. Ewing. "Other stores may carry similar items for 85% of our merchandise. We have the other 15%, too, and it's all here." Or, as Board Chmn.

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Otis L. Guernsey puts it, "It's the grouping of all this merchandise that makes us different."

Big Game

This shop on New York's Madison Ave., with stores also in San Francisco and Chicago, has achieved what many retailers would give their molars for: a special character. Probably every famous hunter from Theodore Roosevelt down has shopped there; it has equipped explorers such as Richard E. Byrd. Dwight D. Eisenhower has worn Abercrombie wading boots. And it holds an irresistible attraction for small boys.

Right now, its cash registers and charge account clerks are working overtime. Christmas means big business at Abercrombie's. It does some 40% of its total annual volume in the months of November and December, says Ewing.

This holiday season wears an extra-festive glow. Sales for 1960 dropped off to about $15.5-million from $16.5-million in peak 1959. This fall, they took a big jump. Now the company hopes for a record or near-record year. Profits, too, which lagged last year, may climb.

Special Niche

Sportsman-merchant Ewing, who became president last January, agrees with Guernsey on how the company has achieved and held its special niche in a fast-changing world. "By sticking to our knitting," says Ewing briskly; "by not trying to be all things to all people."

True, in defining sportsmen's needs, they stretch a point. The famous 7th floor gun room, the 8th floor camping and tackle departments, the "roughwear" departments for men and women, establish the store image. But you can buy chinaware, glassware (trimmed with a sports motif), leather goods, gifts and games for indoor leisure hours. Women can find afternoon dresses of classic styling. Men can outfit themselves with business suits (even sportsmen may go to business), or buy sporting books and paintings.

But they do draw a line. "We don't carry women's formal dresses," Ewing explains, "though we could sell them." Neither do they go in for high-fashion apparel. "It wouldn't be in character," Guernsey says, and adds, "Our individuality is the only thing we have to sell."

Quality Comes First

There's a bit of paradox in the Abercrombie operation. Its basic lines have changed little over the years. In insisting on the old-fashioned retail virtues of quality and service, it runs counter to the latter-day merchandising concepts of fast obsolescence, fast turnover.

At the same time, it seizes on the new, even the faddy, on occasion. It follows new sports developments avidly—underwater swimming, for example. It made a killing a few decades back on the mah jongg craze, went to town this year with the Kennedy rocking chair. This fall, it introduced the Targeteer, which tosses a beer can into the air—an item

that has taken marksmen by storm. "We can't keep it in stock," Ewing says.

Quality has been a store byword since the start. "Price is the second question we ask our suppliers," Guernsey says. "Quality is the first."

Personal Touch

The same holds for service. To Ewing, service means quick delivery, safe delivery, a liberal returns policy. It means carrying hard-to-find items: Where else would you go for a boar-hunting spear? It means carrying items out of season. "We sell heavy coats in the summer," Guernsey says, "for people who travel to Norway."

But service is also a very personal matter, from the board chairman down. "Someone writes in, 'Send me a pair of shoes like the ones I bought four years ago,' " Ewing illustrates. "We dig out his old order." "A man called me last Christmas," Guernsey says. "Nobody I knew. He hadn't received a $250 order. Nobody could find it. One of our salesmen used his head, located it at the man's hometown Railway Express office. Only, he hadn't bought it from us at all." In the Christmas rush, buyers—even Ewing himself—are pressed into service to make a delivery in person.

Bait for Customers

Most changes that have come have grown out of the changing market. The store wears the unmistakable stamp of the carriage trade, and there are fewer of the really plush customers these days.

To compensate, though, a new market is coming in. "The times work for us," Guernsey feels. More money over a broader base, more leisure, these bring in more customers. "Our market has broadened immensely since World War II," Ewing agrees.

Yet luring in new customers isn't easy. Quality and service add up to an expensive operation. Ewing concedes that Abercrombie is synonymous with high prices to many people. Its markup may be a shade higher than some stores, but, quality for quality, A&F insists its prices are competitive. "They would have to be," Guernsey argues, "or we wouldn't have lasted this long."

"Sometimes we can show complaints aren't justified," Ewing says. "Take the woman who wrote us she had found an identical blouse for a dollar or so less at another store. But our blouse had longer sleeves. Once we pointed out the difference, she was satisfied."

Small Fry Welcome

A carriage-trade reputation can scare away some new customers; this is one of Abercrombie's concerns. "We won't lure them in with low prices. We have no budget shop. We won't run splash ads for storewide sales," Ewing says. "But we do try by advertising and word of mouth to persuade the timid customer that he is welcome."

An ad campaign that the store has been running this year makes the point. It consists of a series of cartoons, poking mild fun at the old store.

An example: A salesman leans over the counter to talk to a small boy. The caption reads, "Yes, sir, one bobber, two sinkers. And would you like to look at a minnow trap?"

Actually, Ewing says, by no means all of Abercrombie's customers spend a fortune in the store. A survey made several years ago showed that nearly 50% of its customers shop there once a year and spend under $25.

Longer Season

From the holiday sales surge, it would be a fair deduction that Christmas brings in many of these once-a-year shoppers.

Seasonality has always plagued the company. The slump starts after Christmas. In June, the summer business perks up, dribbles off in July and August. Come September, the fall pickup starts, gathers momentum fast.

Partly to offset this wavering sales curve, the company started opening seasonal branches a few years ago. It had long had a branch at Hyannis, Mass., which it closed during the war. This reopened in the late 1940s. In the last few years, it has had a summer shop in Bayhead, N.J., Southampton, N.Y.; winter shops in Palm Beach and Sarasota. These are small shops, with relatively light overhead, and they help take up the seasonal slack of the big-city stores.

Exclusive Items

Like most retailers, the oftener Abercrombie can get an exclusive product, the better it likes it. It designs some of its own products itself. Its buyers scour Europe for the rare item; Ewing estimates it did some $2-million at retail in imports last year. But a new problem is developing here: The old-time European craftsman is dying out.

The famous Abercrombie catalogues account for over 10% of the business—and this is a costly form of promotion. The catalogues absorb 40% of the total advertising budget. The big ones go to 350,000 people, all over the world.

On-the-Spot Training

There are other problems, but they are problems all retailers face. How do you inculcate the service tradition in new personnel? "By preaching, preaching, preaching," Guernsey says—and by personal example. How do you make an expert of every salesman? "We don't," Ewing admits. Many of the top personnel are experts, and the company works hard to build up expertise down the line. To this end, it sent one of its men on safari; last year, Ewing took three on a fishing trip.

Few Changes

For every difficulty, though, executives find compensations. If turnover is slow, merchandise can be carried over from season to season.

Hence markdowns run relatively low—some 2% storewide, Ewing says, against 6% for many department stores.

Ewing, who worked his way up from page boy to the presidency, anticipates no great changes under his stewardship: maybe more advertising emphasis on apparel; possibly the addition of children's lines. But why change a formula that works? "Someone could come in here with hard-sell tactics and make a mint—for a few years," he says. "But after that, we'd be through." If quality and service come high, they still bring what Abercrombie most values: a satisfied customer.

Team Spirit

More than most shops, Abercrombie & Fitch from the beginning has reflected the enthusiasms of those who have run it. Ezra H. Fitch was a lawyer who turned sportsman in his spare hours. Co-founder David T. Abercrombie was an ex-prospector, miner, inventor, and sportsman. Abercrombie pulled out of the partnership in 1907 to set up a shop under his own name, but left the "Abercrombie" in the firm name. Guernsey, once a Yale football star, has "played at just about all sports." Ewing rides to the hounds, works in some quail hunting when he has the time.

It seems likely that the market for this kind of merchandise—and service—will grow. Store officials like to tell of the man who dithered over a $70 suit for himself, decided against it. On the way out, he spied a $300 tiger skin. "Just what my boy at Princeton would like," he said, and bought it without a quaver.

28 Big Retailers Build 'Twig' Branches, Rely More on Self-Service*

BY JOSEPH D. MATHEWSON†

Some Add Discount Units; Others Sell Tires, Boats, Monkeys, Alligators

Allied's New Doorbell Drive

Department stores have begun a series of radical new steps to try to further extend their merchandising influence—and build sales.

Since World War II, the stores have had considerable success in tapping

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† Staff Reporter of *The Wall Street Journal.*

the growing suburban market by erecting large branch stores. Now, newer innovations are coming along in what might be termed the "second wave" of the retailing revolution.

New types of stores are evolving. One is the "twig," which is an elaboration of the branch store. The "twig" store is usually much smaller than the average branch and instead of trying to carry every line of merchandise offered by the parent store downtown, specializes in a limited line, such as shoes, appliances or low-priced "basement" merchandise. The advantage of "twigs" is that they are less expensive to build and operate than full-blown branches and they can be located and stocked to cater to a specific market.

In addition, department stores are aggressively meeting the discounters' challenge by setting up discount units of their own, usually under a name other than that of the parent store. Other big stores, not willing to go this far, are nevertheless cutting costs by sweeping some sales areas almost free of clerks and setting up check-out counters, in supermarket fashion.

Selling Tires and Pets

Many stores, with an eye on the fast-growing consumer demand for services, are branching out into such fields as auto repairs and food catering. And, largely through the medium of concessionaires, they are building store traffic with many new merchandise items—tires and batteries, coins and stamps, pets, boats and fishing tackle.

Admittedly, many of the innovations are being forced by competition. "In the past," says Alfred C. Thompson, president of the National Retail Merchants Association, "stores were standing pat with their regular merchandise lines and departments. But now they're being nibbled at by so many competitive outlets that they're trying to capitalize on their traffic and customer lists to boost volume with new methods and new merchandise."

This "nibbling" has taken the form of drug stores and supermarkets selling wearing apparel; variety chains experimenting with the sale of large household appliances and expensive jewelry; discount houses offering charge accounts and credit plans to their customers and even gas stations selling appliances and consumer goods. When Morton D. May, president of May Department Stores Co., was asked at this year's annual meeting why his chain had begun selling tires, he replied: "Everybody else is getting into our business. I don't see any reason why we shouldn't look into theirs."

Door-to-Door Selling Plan

Yesterday, Allied Stores Corp., the nation's third largest department store chain, announced one of the most unusual of the competitive steps taken by the big stores so far. Allied is literally carrying the sales battle

to the consumer's front door. It is franchising White Shield Corp., a New York-based cosmetic and drug retailer, to set up door-to-door selling teams for 15 major stores of Allied's 90-store chain. White Shield currently operates beauty-health departments on a franchise basis in about 300 department stores.

Under the new plan, roving saleswomen, recruited by White Shield, will offer a wide variety of merchandise, including cutlery, giftware, housewares, stationery, notions, gourmet foods and hosiery. White Shield will organize "Home Shopping Bureaus" for the individual Allied stores and will issue a catalog in the name of each local store; the catalog eventually will offer some 500 items, all of which will be available in the sponsoring stores as well as from the door-to-door salespeople.

In making their rounds, the sales ladies also will try to sign up new customers for Allied store charge accounts. Orders for merchandise taken by the agents will be given to the sponsoring store, which will deliver them and then will collect either through its normal charge account system or on a C.O.D. basis.

Allied is starting the experiment in the New York area with its Gertz store in Jamaica, L.I., and Stern Brothers units in Manhattan. Between 300 and 400 sidewalk-pounding agents for the two stores are expected to generate total sales of $15,000 to $20,000 a week, or about $1 million a year, according to Calvin Fox, president of White Shield. Eventually, he hopes to have from 2,000 to 3,000 sales agents at work in the New York area alone. (This will still trail Avon Products, Inc., one of the nation's largest house-to-house sellers, which, according to competitors' estimates, has about 10,000 agents in the New York area.) By the end of summer, Mr. Fox expects similar selling systems to be in operation at other Allied units such as Joske's in Houston and San Antonio, Maas Brothers in various Florida cities, Herpolsheimers in Grand Rapids, Mich., Jordan Marsh in Miami and Titche-Goettinger in Dallas.

"A Phenomenal Future"

Mr. Fox sees a "phenomenal future" for his brain-child. Its great advantage over most door-to-door selling, he thinks, is that the salesperson will be backed by the familiar name of a big local department store and the customer will receive delivery and pay through regular store channels. The stores will buy the merchandise from White Shield, including inventory for all items in the special home shopping service catalogs. Since White Shield will make its profit in such merchandise sales it will charge nothing for its services in setting up the new home service departments. The stores will pay the sales ladies in the field a 25% commission on the dollar volume of their sales.

Not all retailers share Mr. Fox's enthusiasm about the potentialities of direct selling for department stores. Says John A. Blum, senior vice president of R. H. Macy & Co., New York, "If they can make it pay, bully

for them. I'll be amazed though." His doubts about the plan are based on a belief that the door-to-door agents won't be able to generate enough volume to pay for their services and still provide a profit for the store.

The Spread of the "Twigs"

No such doubts surround development of new "twig" branches by an increasing number of department stores around the country. Here a pioneer is Thalhimer Brothers, Inc., of Richmond, Va., which has opened three twig stores in Richmond in the past 18 months and also operates four other twigs associated with its stores in Danville, Va., and Winston-Salem and Greensboro, N.C.

"This city isn't big enough to absorb a full-scale 100,000-square-foot branch store," comments William Thalhimer, Jr., president of the store. Richmond has a population of 250,000 in the city and about 400,000 in its metropolitan area. The store has been so successful with its twig empire that it plans more of the small offshoots.

"Net profit is substantially better than in the main store," says Herbert A. Leeds, Thalhimer vice president. Unlike full-sized branches, twigs operate with only a handful of executives; the downtown store handles buying, displays and advertising with only slight increases in overall staff. Furthermore, Mr. Leeds says, the twigs were profitable right from the start while a regular branch is usually unprofitable for at least its first year of operation.

Thalhimer's twigs, Mr. Leeds says, are designed "to serve a particular need of their community." One store is located just outside Richmond in a well-to-do suburb and carries only medium and high-priced children's and teen-age wearing apparel, shoes and accessories. Another twig, in the shopping district of a Richmond industrial area, carries only low-priced basement merchandise. Selecting merchandise for stocking a twig therefore is easier than for the downtown store which caters to a broader market. "We don't have any schizophrenia about whom we're serving in each twig," says Mr. Leeds.

Another factor in the better profit showing, he says, is "more inter-selling among departments." Sales clerks can sell all merchandise and can accompany the customer through several areas of the twig.

Basement Merchandise

Although most twigs are less than 50,000 square feet in size, considerably smaller than a regular department store branch, the basement merchandise twigs often are as large as a full-scale branch. J. L. Hudson Co., Detroit department store, two years ago opened a basement merchandise twig in Lincoln Park, Mich., an industrial area outside Detroit. The store comprises 93,000 square feet on two selling floors and has 61 departments mostly selling wearing apparel and home furnishings.

The basement merchandise twigs operate on the principles of low

markup, maximum exposure of merchandise, fast turnover and a minimum of salespeople—precisely the tactics used by discount houses. But the department stores operating these twigs stoutly deny they've joined their discount competition. "We're no discounter," says one store executive. He claims such differences as these: An attempt to create an "upstairs store atmosphere," with pleasant, bright decor and neat merchandise displays, which he contrasts with heaps of merchandise on basement counters. Also department store-type services, including credit, delivery and repair, further differentiate these stores from most discount operations, he says.

Entry into Discounting

Some department store companies, however, have made a deeper plunge into discount-type operations, opening new self-service, low-markup stores under a different name and in areas apart from their conventional stores. Interstate Department Stores, Inc., New York, doubled its earnings in two years by moving rapidly into discount operations, starting in 1958. Recently, L. S. Ayres & Co. of Indianapolis announced plans for a chain of self-service department stores under the name Ayr-Way. The stores will include supermarkets.

Allied Stores Corp. also plans to enter what it calls the "mass merchandising, simplified service field" with a chain of Almart Stores. Allied also is converting some of its existing department stores to the Almart operation.

Some stores are adapting the self-service technique to their operations on a limited basis. The move is largely an effort to bolster dwindling profit margins, which shrank last year in big department stores to 2.7% of sales, down from 3.1% in 1959, according to the National Retail Merchants Association.

"We're experimenting with self-selection within certain departments," says Harold W. Jockers, chairman of New York-based Mercantile Stores Co., operator of 18 department stores and 40 branches. Not only does this require fewer salespeople, Mr. Jockers says, but, "we think it has a tendency to speed up sales."

Macy's Checkout Counters

Where a store is divided between self-service and conventional service, often the lower-priced merchandise is found at the self-service station. At Macy's New York store, $1.99 men's white shirts are displayed on a counter which at one end has a "thrift table" for checkout and wrapping. Across the aisle in a conventional glass showcase, serviced by salesmen, are $3.94 and $4.50 white shirts. In Macy's basement, the hardware and garden shop departments are checkout operations, complete with entrance turnstiles.

Additional sales volume also is being sought by department stores

through expansion into merchandise formerly handled by other types of retailers. Because of their specialized nature, these new departments often are operated by lessees. One big tire retailer, Vanderbilt Tire & Rubber Corp., New York, operates over 40 tire and auto accessory departments in department stores, up from 24 a year ago. Half the company's 1960 volume of $18,942,181 was done through department stores, says Harold Leitman, president. A year earlier the proportion was only 30%.

When Vanderbilt establishes a tire outlet in a department store, Mr. Leitman says, the company withdraws its products from small retail dealers in the area. "Department stores getting into this business has created a howl in the retail industry," Mr. Leitman admits.

However, many major tire producers now are experimenting with leased department store operations. U.S. Rubber Co., Firestone Tire & Rubber, B. F. Goodrich Co., General Tire & Rubber Co. and Seiberling Rubber Co. all have leased department operations in stores. Most of the department store selling is done with tires made by the smaller tire makers, however. Mansfield Tire & Rubber Co. of Mansfield, Ohio, has just made arrangements to acquire Abel Corp., a distributor which currently sells only through 62 department store outlets.

More Auto Accessories

Vanderbilt has progressively broadened the line of auto accessories it sells through department stores. "When we started with mufflers," Mr. Leitman says, "we weren't sure people would bring their cars to department stores for mufflers. It's amazing what has developed." Vanderbilt and other operators of leased departments install tires and accessories for customers in nearby buildings. Some stores throw in an hour or two of free parking while the customer, often a housewife, shops in the store.

"We expected most of our business would come from men. But most of the trade has come from women shoppers," says a department store official. "They know our store, so they have no qualms about leaving their cars in our hands. Lots of them just hop out and tell us: 'Do whatever needs to be done.'"

Abraham & Straus, large Brooklyn department store, puts on as many as 300 tires on a "good day" and also installs seat covers, batteries and shock absorbers. The store now is planning similar departments in three Long Island branches; these new units may offer wheel alignment and brake relining service, already available at other department stores.

Volume from Coins, Stamps

Other leased department operations are making similar gains. Empire Stamp Galleries, Inc., of New York, operator of stamp and coin departments in 30 major department stores, inaugurated six new departments last year and is planning 10 to 12 this year. "We could open 25 more if

we could find the trained people and the proper merchandise," says Jacques Minkus, president of Empire.

Gimbel's New York store, where Empire established its first leased department, has progressively enlarged the main floor space given to coins and stamps. The department now occupies a large area in a choice location, immediately in front of a bank of elevators.

Chicago Bird & Cage Co., a small firm which operates leased pet departments, is "booked solid for the next 18 months," says S. L. Meyers, vice president. The firm now has 23 pet departments operating. "A few years ago when we approached department stores about a pet department, they were reluctant," Mr. Meyers recalls. "Today we have more store inquiries than we can handle."

Tropical fish provide the biggest sales for department store pet departments and some stores carry as many as 50 or 60 varieties. Most departments also have various birds and Mr. Meyers likes to have at least one monkey, honey bear or alligator on display. "They're terrific attractions," he says, "and in a couple of months someone will actually buy them. Then we get another animal."

Other leisure time fields also are getting increased attention in department stores. On an upper floor of one New York store are a small sailboat, two outboard runabouts and a huge, round plastic swimming pool. Prices in this area run high. A 14-foot fibrous glass boat, without the motor, is tagged at $799. The Killian Co., a Cedar Rapids, Iowa, department store, has opened a Sportsman Center twig on the shores of an artificial lake near the city, where it sells boats, motors and fishing tackle for about six months of the year, closing the store in winter.

Along with merchandise expansion, department stores are adding many new services. Macy's New York, for instance, now reupholsters furniture in the customer's home and also offers furniture polishing service. Says William Burston, head of the merchandising division of the National Retail Merchants Association: "Stores are making themselves as important for the variety of services they offer as for the merchandise they carry." A New York merchant comments that one major reason for this move is to create customer attractions not found in competing discount houses.

29 Retailer Fusion: Who Will Win?*

Department stores, supermarkets, discount stores are growing more alike every day. It's the result of competitive imitation.

The logical result would be one store serving the functions of all three. That would mean only one store out of five or six could survive.

Advertising will be relied on more than ever to build distinctive images for look-alike stores and pre-sell brand names in an era of high volume and virtually no personal selling.

A major retail revolution—far more significant than the independent developments of department stores, supermarkets or discount outlets—is now reshaping the traditional means of selling goods.

This revolution has been labeled, inaccurately, the growth of discount merchandising. But the change goes far beyond that.

Before the next decade is out, some observers believe, the discount store is likely to disappear as a separate entity. So, too, will fade the department store as it is known today. The present-day supermarket, also, will likely become a thing of the past.

The new center of retailing will probably be a highly efficient combination of the best features of all three: discounter, supermarket and department store.

It will be almost as convenient as the neighborhood supermarket, almost as reasonably priced as the present-day discounter, almost as service-conscious as the downtown department store.

This new store (still to be adequately named) will be a colossus mart offering the variety of a Bergen Mall (New Jersey) but organized on a much smaller and much more manageable scale.

Volume on low margin will be its profit source. Packaging innovations, possibly even the widespread use of charge-plate-operated vending machines, will permit marked reductions in overhead, well below the costs of present-day self-service stores.

It will be a brand-name outlet that will shun the private label because profits in the future will be built on quality goods.

It will be an outlet relying much more heavily on advertising to assure that every product is pre-sold before the consumer sets foot in the store.

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This view of future retailing is not idle speculation. The seeds of this change already have taken root.

I. The Impetus

Three forces at once are compelling the development of the new discount-department-supermarket stores. The growth of the discount operations since World War II certainly is the major factor. Significant, too, is the competitive reaction from department stores and supermarkets which saw themselves being left behind.

A third force, not generally recognized, is the counter-reaction from the discounters: While the traditional stores have been moving closer to the discounters' pricing, the discounters have been moving closer to the traditional concepts of service, deliveries and charge accounts.

There can be no doubting the significance of the first force: the tremendous growth of the discount industry. According to a national study conducted by The Discount Merchandiser, a new monthly of Super Market Publishing Co., the number and volume of discount operations has been increasing by multiples in recent years.

In 1960, according to the study, there were 1,985 discount-type stores with a total annual volume of about $2.9-billion in sales. By this year the number of stores should climb 21 per cent to 2,400 units and the volume should soar to $4.1-billion, an amazing 41 per cent gain.

The average discount operation will be getting bigger and busier through the year. The Discount Merchandiser study indicates that the average store size will climb from 28,000 square feet, the 1960 mean, to 34,000 square feet by the end of 1961. Average annual volume will climb from $1,480,600 to $1,720,000 per store.

The Discount Merchandiser data rank discount stores as the fifth largest retail trade vehicle. Leading handlers of multiple-product lines are the supermarkets, with about $35-billion in sales last year. Department stores rank second with $14-billion, followed by drug stores ($7-billion) and variety stores ($4-billion). The discounters could move ahead of the variety stores into fourth place this year.

These data on discount growth, impressive as they are, fail to describe the full dimensions of the discount development of recent years. No longer are discounters low-margin retailers of only appliances or photographic equipment, as they were following World War II. In the early 1950s they moved full-strength into soft goods, and grocery items and drugs are now standards in the new product lines of the discount stores.

A case in point: E. J. Korvette of New York, the nation's largest discount operation, with 12 stores in four eastern states netting $158,500,000 in sales, and profits of almost $5,600,000. In 1960, 52 per cent of this chain's volume came fron hard goods. Soft-goods volume had grown to 35 per cent.

Food items represented eight per cent of the volume, and drugs and toiletries another five per cent. And Korvette's president William Willensky believes that the chain has yet to tap the full potential of the drug and food lines.

II. The Impact

The department stores and supermarkets at first watched the discounters as a heavyweight boxer might watch a scrapping teen-age brat. But then the brat grew up. The department stores and supermarkets had to throw up their guard.

The initial defense was a weak offense. Department stores, for one, tried to counter the discount pricing by emphasizing their traditional services. That failed to stem the tide.

Department stores next shifted to price battling, but that failed, too; an antiquated profit viewpoint got in the way. Instead of emphasizing profits on total sales volume, like the discounters, the department stores still were concerned with individual margins and profits on a lower volume of sales. With such an outlook, the department stores were hardly in a position to meet the discounters on pricing.

By 1960 the result of this half-way battle was clear in department-store annual reports. According to the Controllers Congress of the National Retail Merchants Assn., department-store net profits last year fell to 0.8 per cent of sales, the lowest point in the association's 12 years of study. Another study showed that average net earnings after taxes at 15 major department stores had slumped to 2.6 per cent, compared with 2.96 per cent the year before, when sales had been lower.

J. C. Penney illustrates the department-store blight. The chain saw sales climb from $1,437,000,000 in 1959 to $1,469,000,000 last year, an increase of 2.2 per cent. Net profits, however, slumped from $51,524,000 to $44,994,000, a drop of 12.7 per cent.

At supermarkets the economic pinch was less obvious, but there, too, the pinch was to be felt. It was noted in different areas in different ways.

In the Southwest, for example, discount operators were driving supermarkets out of the soft-goods business. The supermarkets lacked the volume to compete on price and they preferred to get out rather than be undersold. The supermarket thinking was starkly realistic: "If people think we are being undersold on soft goods they might get the idea that we can be beaten on groceries, too." And this was one impression that the supermarkets wanted to avoid.

But maintaining low food prices against the discount invasion was not that simple. Supermarkets traditionally have been boosting their traffic by offering loss leaders in some categories, and then quietly boosting the shelf price of other items to make up for the loss.

The discounters, who have no problem maintaining traffic, are able to

keep their shelf prices uniformly down, considerably below the level that conventional supermarkets care to go.

Dr. Joseph O'Brien, director of research and operations analysis at Tederschi's Super Markets Inc., Rockland, Mass., spelled out the price differentials recently at a conference on discounting at the University of Massachusetts, Amherst:

> In the groceries area a normal markup in our supermarket might be in the vicinity of 18 per cent. These food discount stores are selling groceries at gross profit of about 12 per cent. In the meat area we are getting approximately 21 per cent in the way of gross margin. Food discount stores are getting around 18 per cent. In the produce area, where we realize 30 or even a higher percentage, you'll find the food discount stores are in the vicinity of 23 per cent.

Lower operating costs account for part of the price differentials. According to O'Brien, the discounters save as much as 2.5 per cent of sales by not offering trading stamps; they save another 1.5 per cent on labor; as much as 1.5 per cent on overhead; and their "advertising typically is less."

But reduced costs are only part of the explanation. The discounter's mass volume approach is the peg on which the whole price-cost structure hangs. Without their volume, the discounters never would be able to show a profit regardless of how much they cut costs.

III. The Reaction

The traditional department store and supermarket—after first trying to ignore, and then attempting to price-cut their way out of the trend—recognized finally that the discount operator was not to be spirited away.

Supermarkets, the young and scrappier of the two standard outlets, made the first move. A number gave up trying to lick the discounters and decided to join them. (A&P, however, still stands aloof.)

Grand Union Co., which now has about 450 conventional supermarkets in ten eastern states, took a pioneering step in 1957. In suburban Keansburg, N.J., the chain opened a combination food-general merchandise discount center called Grand Way. The experiment was a brilliant success. The company netted new profits on the general merchandise lines and saw volume soar on its traditional food categories, as well.

A precise comparison of the two food retailing techniques came in a later Grand Union experiment. The company, in this instance, took an existing conventional Grand Union supermarket, added new space for a general merchandise section, and redubbed the entire operation with the Grand Way name.

The food section, before the expansion, had been recording about \$18,000 in sales each week. After the section was re-opened as part of Grand Way, the same food department saw sales soar to \$45,000 a week, an increase of 150 per cent.

Grand Union now has 20 Grand Ways in operation and over-all cor-

porate profits have mounted from $5,049,000 in the fiscal year ending in March 1957, to $7,091,000 in the fiscal year ending in February 1961, an impressive gain of about 40 per cent.

Other supermarket chains have taken other routes to success in the discount age. Some, for example, lease out food market space in existing or projected discount centers. Mayfair Markets, on the West Coast, has set up a subsidiary to handle just this sort of supermarket expansion.

Other supermarkets have invited discounters to share shopping center space, as Food Fair has done outside of Washington, D.C.

Still other supermarkets are teaming up with discounters to lease adjoining sites and then cutting a doorway through the common wall to allow customers to travel between the two stores.

To some observers in the field, this activity toward supermarket-discount combinations bears a fascinating resemblance to the starting days of supermarkets 30 years ago.

Department stores at first moved more slowly to join with the trend. By this year they were as committed as the supermarkets. The announcements came quickly, in the space of a few weeks.

Allied Stores Corp. established a new discount division under the Almart Stores name and picked Peck's, Kansas City, as its first traditional store to be converted to the discount theme.

May Department Stores Co. revealed plans for what it called the "store of the future" replete with discount-prices, self-service and check-out counters for most items, but with personal service in the fashion fields.

City Stores Co. announced intentions to convert six of its smaller department stores to the new discount theme.

Federated Department Stores confirmed that it had three full-scale experiments in discount merchandising going to Milwaukee, Dallas and Dayton.

General Merchandising Corp., Milwaukee; L. S. Ayers & Co., Indianapolis; Interstate Department Stores, New York; and Davidson Bros., Detroit, are other traditional department-store retailers who are active in the discount field.

Active, too, have been the variety chains such as F. W. Woolworth Co. and S. S. Kresge. Woolworth said it intends to build the nation's largest coast-to-coast chain of discount stores under a Woolco Department Store name. Each Woolco store, the company claims, will have at least 60,000 square feet of floor space, twice the size of a standard Woolworth store. These new ventures, the company insists, will not interfere with the conventional Woolworth operation. President Robert G. Kirkwood said Woolworth already has allocated $150-million for capital expenditures over the next five years to keep "its leadership in the variety store field."

Kresge, meantime, has put its discount plans to work with a discount department store in suburban Detroit.

The old-time discount operators, of course, did not sit back idly and watch the counter-offensive that department stores and supermarkets have launched.

The discounters waded into the fray with tactics from the past, but updated to meet the times. The discount operators attempted to take on a new aura of respectability, a posture of permanence, an image of solidity to let their customers know they were in business to stay.

IV. The Battle Joined

Stephen Masters, president of Masters discount chain, organized an industry association to speak for all elements of the discount retailing field. This group at first called itself the National Assn. of Discount Department Stores, but that was before any traditional department stores had adopted the discount theme. The group quickly changed its name to the National Assn. of Discount Merchants. According to Masters, 50 chains with 250 stores have joined the group.

The drive for respectability took another turn this June. E. J. Korvette announced that it would open a new eight-story discount department store on Fifth Avenue and 47th Street, amid some of New York City's most plush retail stores.

The new Korvette's, to be opened next spring, will be unlike any other discount operation. Said the company in its press announcement:

"The interior and exterior of the building, now occupied by W & J Sloane, will be completely renovated and modernized to take its place as one of the fine Fifth Avenue establishments. The seven selling floors will be linked by escalators and elevators, will be fully air-conditioned, will have background music, unusual lighting and color effects, and also outstandingly beautiful display and decor—all planned for pleasant and convenient shopping."

The drive for respectability and solidity has taken other forms. Discounters now are emphasizing service, the one area in which the department stores used to excel.

Korvette, for example, now offers charge accounts and time payments of up to three years. Many bulky items (such as major appliances) are delivered without charge. The store's own guarantee, supported by dependable service, backs each appliance sale. In many departments there is personal service to aid in the product choice. And these services are available at other discount stores, too.

As might be assumed, increased markups have been paying for this new respectability. Most discount prices, nonetheless, still fall well below the traditional stores' lowest.

What, after all this activity, will be the net result? What will retailing be like tomorrow, with department stores getting less expensive, with discount stores getting more expensive, with supermarkets pulled both ways.

One certain result will be the shrinking of the gulf that now separates the three types of outlets. Each will take on the best aspects of the other and all three will grow to look more and more alike.

But, obviously, not all the look-alikes will be able to survive. There will be little need for three stores, each covering all three retailing areas.

If carried to its logical extension, this consolidation could go far beyond one store for three. Supermarkets can now profit in trading areas with an average radius of two miles. Discounters require, on the average, a ten-mile radius to meet their volume needs. If this formula holds up, it would mean that only one store out of five or six (three supermarkets, one discount center and one or two department stores) would be able to survive.

But would consumers travel those ten miles (a 20-minute drive) to buy the food they need? There is some evidence to indicate that they might, especially if that one store also carried the general merchandise they wanted to buy.

The supporting evidence comes from a study of discount-store shoppers sponsored by *This Week* magazine. It showed that the average food purchaser at a discount store did most of her shopping once a week, while the average supermarket shopper is accustomed to visiting the store three to four times a week. American consumers, apparently, can train themselves to shop for an entire week if their food store is some distance away.

And this distance of ten miles, which seems so imposing now, actually will be reduced with the passage of time. With the population expected to increase 50 per cent by 1980, discounters might find the volume they need within an average seven-mile radius, not the ten miles required today.

V. Advertising's Role

In this trend toward a highly concentrated, highly efficient system of distribution, advertising would have two extremely vital roles to play.

For one, advertising would have to isolate and identify the individual stores as they began looking more and more alike.

Advertising, secondly, would have to take on even more of the burden of pre-selling than is now required of it.

Woolworth president Robert G. Kirkwood detailed the greater need for retailer advertising: "As traditionally different retailing fields tend to lose their individual identity—with overlapping of merchandise lines, services and prices—the importance of maintaining a distinctive image will call for much greater attention to institutional advertising, greater imagination in merchandising and more skill in public relations."

Still more demanding will be advertising's role in pre-selling merchandise. As has happened in supermarkets, personal service will virtually disappear from major outlets in all but a few fashion and style fields. No

one will be around to push a manufacturer's product unless he does it before the consumer steps into the store.

Even in the food areas, the need for pre-selling is likely to increase as volume requirements are tightened on which products can stay, which will have to get off the shelf. The introduction of coin-operated or charge-plate-operated vending equipment will further tighten the volume demands.

As with the retailers, not all manufacturers will be able to survive in this new demanding age. Survival will be enjoyed only by those few with the aggressive marketing skill to battle their way above the crowd.

30 Toil and Service*

Carter R. Harrison vice-president, Fitts Dry Goods Company, Kansas City, sees wholesaling as no "take it easy" road to success.

Jesse C. Fitts, prototype of the old school wholesaler, shared with boundless enthusiasm Winston Churchill's high regard for toil as a component of success.

Toil, in great doses, still ranks high among the principles of operation of the Fitts Dry Goods Company, Kansas City, Mo. The company has become an $8 million a year business, serving 8,000 customers.

J. Russell Fitts, youngest son of J. C., now presides over the front office, in a turn-of-the-century building which is headquarters for about 200 employes. Forty-nine are salesmen, the others are inside personnel employed in Kansas City or at branches at Sioux City, Ia., Wichita, Kan., and Oklahoma City, Okla.

Growing with the Times

While the younger Fitts has followed much of the pattern cut by his father, he has been astute enough to recognize the many changes in soft goods wholesaling as it exists today and he has altered the pattern to fit the cloth.

"Wholesaling has gotten away from the old 'jobber' concept," says Carter R. Harrison, vice-president of the firm and central regional vice-president of the National Association of Textile and Apparel Whole-

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salers. "Wholesalers are serving more in the capacity of distributors for important lines of merchandise."

Lines have changed radically, too, in the lifetime of the Fitts Company, founded originally as a notions company at Hutchinson, Kan., in 1889. Later it moved to Wichita and, in 1897, to Kansas City, where J. C. Fitts bought an interest in the concern in 1903. The company then became Maxwell-McClurg-Fitts. In 1940 the name became Fitts Dry Goods Company.

At about that time, or shortly before, a trend began which was to alter the whole concept of wholesaling.

Shortly before World War II various key brand mills recognized the necessity for having their lines distributed through wholesalers, in an effort to meet the needs of the consuming public more effectively.

"Mills can do a fine job of making merchandise but we feel that it is the wholesaler's place to distribute it. He does this by offering the proper service—service which, of course, is the number one requisite of any successful wholesaler," Mr. Harrison says.

The trend was interrupted during the war years because of the short-supply situation. Then it was necessary to buy anything available in order to survive. Force of circumstances broke the continuity of lines. But following the war a new concept of brand line distribution again began to flourish and the trend continues strongly in that direction, Mr. Harrison believes.

"The trend today," says Mr. Harrison, "is toward handling a restricted number of key brand lines and, by so doing, to accomplish our number one aim of service. We try to make our operations conform as closely as we can to the needs of our customers' customers."

The Fitts Company serves three primary types of retailers: metropolitan department stores; junior department stores in medium-sized towns, and the small rural independent store.

The last group has been the company's 'bread and butter.' Mr. Harrison predicts that it will continue to be, although many are closing.

"The small merchant can continue to be a great market so long as we are service-minded enough to help these stores in their merchandising plans and programs," he said.

A Plan Well under Way

The company has embarked upon a planned program to aid the small, independent retailer. Two men broadly experienced in retailing were assigned to administer the program.

Under this system the small store is provided with a "blueprint" of sound merchandising, custom-tailored to its specific location, operation and problems. Guides are provided on such basic matters as stock control and record-keeping, advertising and promotion.

Thus far the program has included approximately 25 stores in towns of about 1,000 population. The firm plans to expand this to include somewhat larger stores in somewhat larger communities, possibly in the 5,000–7,000 population bracket.

As a part of its drive, the company has conducted two retailer "profit forms," at which it counselled retailers on merchandising. More are planned, with the next probably to be held in May.

Tentative plans call for attendance by both managers and salespersonnel of stores. They would meet with manufacturers' representatives, who would discuss their lines with salespeople. Effective retail sales techniques would be demonstrated in other phases of the program.

Fitts executives believe that stores in rural towns can operate at a good profit if they bring themselves up-to-date and streamline their operations.

The company's market among metropolitan and junior department stores is growing fast. Mr. Harrison predicts that business from these two sources will increase "many times over in the years to come, for many reasons."

In recent years the modern wholesaler has gained stature and recognition in the eyes of retail merchandisers. Now some of the country's most widely recognized mills are keying their distribution plans directly through the progressive wholesaler.

"Our position today is enabling us to serve some of the largest stores in the country with merchandise that they can sell in large volume and at a good profit, with minimum investment," Mr. Harrison said. He sees the wholesaler's greatest challenge as "one of improving the calibre of our sales organizations representing us on the road."

He sees no panacea and no mystic solutions for the problems of successful wholesaling.

"Any success we achieve we feel will have to be built through our own efforts to do an increasingly better job for our customers. If any formula did exist it would have to revolve around consistency, hard work and a deep down desire to do a better service job.

"Basically, our whole thought is to have the merchants with whom we do business prosper. We try to help them in every conceivable way, by offering the right kind of merchandise at the right time at competitive prices."

A Hard Core of Employes

As head of a general line textile and apparel house, J. Russell Fitts has continued the sincere concern for his employes which was basic with his father. Lines include piece goods, domestics, men's and boys' furnishings, work clothing, notions, infants' and children's wear, women's ready-to-wear, and toys.

A hard core of employes whose loyalty has played an important part in the company's progress has remained with the concern through decade following decade.

Ed Kerns retired recently after 50 years' service with the company. Nathan Cramer, now sales supervisor, was hired by J. C. Fitts when he was a young boy. He has been on the road for Fitts for 45 years, and is probably responsible for more volume than any other one man.

Then, there is "Pappy" Kellerstrass, a relative newcomer by the standard of Fitts oldsters. He was in his 70's when he went to work for Fitts during the war years. A packer on the shipping floor, "Pappy" is honored annually by his fellow workers with a cake on his birthday. The next will mark his 95th.

"Pappy" and his fellow workers ship to all or parts of nine states: Missouri, Kansas, Iowa, Nebraska, Minnesota, South Dakota, Oklahoma, Arkansas, and Texas.

With the Fitts Company, from J. Russell Fitts, president, to "Pappy" Kellerstrass, packer, a key element has been added to J. C. Fitts' concept of toil as the basic ingredient of success. Now it's "Toil and Service."

31 Beatrice Foods: "We Believe in Brokers"*

BY EDWARD M. MULDOON†

'Our belief is based upon proven sales results.'

'Anyone familiar with the Grocery Products Division of Beatrice Foods knows that the success of our products is heavily dependent on the caliber, growth, and success of brokers.'

The recent convention of the National Food Brokers Assn. might well have been the most important meeting in the history of this progressive organization. Because expenses beyond control keep going skyward, the profit squeeze is on operators, manufacturers, brokers, and all businesses.

For this was the time when not only food brokers, but manufacturers and operators, took a hard look at the future and realistically reassessed

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†General Manager, Grocery Products Division, Beatrice Foods Co., La Choy Food Products.

operations in terms of both volume and profits. The crying need for profitable growth is apparent.

Much has been said about the operation vise that is squeezing some brokers as we step off into the "Sixties." The entire industry is feeling pressure, in the same ratio, from the consumer demand for lower prices and increasing costs of operation.

We, as manufacturers, accept the obligation that we must continue to help our brokers in every way we can. We have studied the NFBA advertising and other surveys and have a brokers' type program that we call our "Keys To Growth Program." It is a program that will enable him to get the maximum merchandise mileage out of his market area. And the broker must use every tool at his command if he is to end this game of profit-declining "cold Russian roulette."

Grow, or Else

The solution is not an increase in percentage of sales for the broker. We believe the answer is increased dollar volume. This is the master key to growing profitably. We appreciate that it costs more today for brokers to operate—added duties, added demands, added manpower costs and expenses, cars and gasoline.

Growth is not something to wish for, to talk about; it is a must for every progressive organization. None of us can be satisfied or complacent. Each one must be imbued with the vibrant desire and motivating urge—"it can be done better"—that there is a more effective and profitable way to get the job done. The grocery business is a rough, tough operation. Competition is increasing, and none of us can afford the luxury of relaxing our efforts.

Therefore, in today's economy the broker has to grow . . . OR ELSE. No business can remain static and live, whether it is a broker business, food manufacturing business, food retailing business, or any other kind of business. The minute you are satisfied, you are headed for failure.

Specifically, we are concerned with brokers. Anyone familiar with the Grocery Products Division of Beatrice Foods knows that the success of our products is heavily dependent on the caliber, growth, and success of brokers.

We believe in brokers. Our belief is built upon proven sales results. For example, the House of La Choy has been built by the efforts of our outstanding broker sales team. La Choy has become the leading producer of canned American-Chinese foods largely through the efforts of brokers. We regard the brokers as sincere friends, as our valued partners in growth.

We have placed our faith and confidence in brokers to increase sales of La Choy Chinese food products, Clark candy bars, Richardson Mints, Mario's olives, "Ma Brown," Rainbo, L&S pickles and preserves, Gebhardt's Mexican foods, Holloway's candies, and Bond pickles for a number of basic reasons.

When you work through brokers, your sales costs are known.

You have a known sales force. Any business doing less than $50 million might find it advantageous to work through broker representation because you have a superior sales force with a predetermined sales cost.

Dealing through brokers provides a processor with the advantage of working through a "home" organization. Your representatives are local businessmen known in their area, members of the many civic and industrial organizations in that community. Brokers know their customers, their market. They have the advantage of dealing with friends, not strangers. They are the merchandising managers of the products they represent in their respective marketing areas.

Brokers, with your aid, can provide a "customerized" service suited to the needs of the buyers and the consumers. To be successful they have to keep pace with the trends and yens of their communities and apply them to your products to keep the rate of turnover you need.

By using a broker organization you multiply your sales force. For example, in a community, your sales volume might justify only 1½ men per day selling your products. In the same community, the broker will have the equivalent of 20 to 65 men, all of whom know the area intimately.

Practical Tailoring

Again taking La Choy as an example, we believe we must tailor our merchandising program to meet the needs of our customers and our brokers. Manufacturers must work hand-in-hand with brokers for mutually profitable growth.

We are convinced that if we are to grow, the broker must grow. One means is by developing the practical types of selling, advertising, and merchandising programs that are best for the trade in each area, the kind that brokers can merchandise productively.

Extensive surveys in cooperation with our brokers have been made regularly to determine what is the best advertising program for brokers in each area. In other words, we want to do what he and we believe will be the best for both of us in his market. The cost is far more than compensated by the proven return for the broker . . . and consequently for our customers and our company.

We are convinced, too, that if the manufacturer would seek out the broker's advice, find out what his desires are, and set up the type of program the broker can use, profitable sales for all concerned will result.

Equally important is the necessity for providing a complete chain of communication. Not only must the broker and his customer, *i.e.* the buyer, know what the manufacturer is doing to promote the products, but the management, the merchandising management, the checker, the first clerk, and even the thirteenth clerk, must know the basic sales program for the products involved to develop fully increased volume profitable to all.

Wanted: More Profit

I would like to dwell on that word *profit* a little more. It is necessary to provide the customer, the consumer, and the broker with items of quality that return profits above average gross to grow profitably.

The retailer is faced with the identical problem we all are trying to solve. The solution to combat the profit squeeze is that he, too, must increase his volume in items that produce more profitable sales.

What a time this is to be selling pickles and other high-profit lines! I mention that by way of illustration, not alone because we happen to be in the pickle business. Pickles are the No. 1 food profit item in grocery stores.

We are anxious to see all our brokers prosper. In fact, we expend considerable effort to assist our brokers in developing their business on all of their accounts. The logic is obviously that a successful brokerage firm, like any other successful firm, tends to attract the better principals, better men that have a bigger and better retail organization. This is purely a selfish approach. We're the broker's friend for our own sake as well as his.

It also is a policy of the Grocery Products Division of Beatrice Foods to avoid changing brokers if at all possible. Rather, we prefer to get out in the field and help them and their organizations sell.

Citing La Choy as an example again, this company, which has national distribution as well as distribution in 46 foreign countries, has changed only 2 brokers in 8 years.

If a broker is having trouble selling our products, we send a trained team to his area to help him in the field. The program includes complete product posting education and providing his men with merchandising information. In summation, this amounts to team work at the grass roots selling level.

Program for Profit

We are constantly augmenting our program of customer service—more attractive labeling, better packaging, palletizing directions, regional warehousing, broader advertising both at the local level through cooperative merchandising agreements and nationally in newspapers and consumer magazines, and, of course, superior quality as well as broadening variety.

Another f'instance in our program is the technique of pre-testing our advertising and marketing programs. We survey thoroughly our brokers to find out what each wants or needs in his area. The compilation of these facts and opinions enables us to institute a more effective advertising program—a program that will help sell the products—each year to keep pace with our growth.

A part of this program we call the "Cupid Key," that is, the key to "making love" to the operators, and the only effective way you do that is to help him increase his sales turnover and his percentage and dollar profit.

Another important phase of La Choy and the Grocery Products Division operations is our program of customer service. We constantly are providing the brokers with ideas and materials that will help him help his customer sell . . . ideas such as Chinese foods sections, suggestions for

better shelf placings and facings . . . materials such as over-the-wire hangers, pole displays, Chinese lanterns, chopsticks, cutouts, shelf-talkers . . . tested premiums, tie-in sales, refunds, special promotions.

The challenge of the future is profitable growth, subscribing to the themes of both the National Food Brokers Assn. and the Grocery Manufacturers of America: "It can be done better."

"If a company is to grow, the brokerage business must grow."

The golden key to survival, much less success, is sweat-and-tears hard work. The manufacturer must help the broker, the broker must help the customer, the customer must help the consumer. But this is a key everyone must earn by himself.

32 Branch Distribution Trend Gains*

Facing an uncertain and highly competitive market, many appliance manufacturers are shifting from independent distributors to factory-owned branches—even though they would prefer to work through independents.

It's clear from the statement above that manufacturers, beset by some of the fiercest competition for the consumer dollar they have ever experienced, are out to whip their distribution channels into shape.

Their efforts raise an old question: Are manufacturers moving in on distribution as they have moved in on the merchandising function? If so, why?

The answers run every which way. But on one point, there is little doubt. In major markets, factory branches—factory-owned distribution points—get the lion's share of the appliance distribution job.

Probably the chief reason is the fact that there just aren't enough good distributors to go around in the hot battle among the myriad of appliances and brand names. So producers, in order to maintain their share of the market, find it necessary to set up their own shops.

This isn't to say that the role of the middleman in the economic system is outmoded. The wholesale function, which brings the factory and its production up to the point of the ultimate retail sale, cannot be

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eliminated, since customers want to buy at their convenience, not at the convenience of the producer. Hence, producers must ensure that goods are stocked and readily at hand (1) at the retail level for the consumer and (2) at the wholesale level for the retailer.

The question is how to do this most efficiently and, for any particular brand, most effectively. Independent wholesalers themselves ordinarily have no direct interest in whether Brand A or Brand B sells. Their interest is in making money. With the broad choice of brand names available in all kinds of business, wholesalers become prime targets of manufacturers' selling efforts.

One way manufacturers have to sell is to create a demand for a product at the consumer level through hefty advertising, forcing any wholesaler or retailer to stock their particular brand in order to satisfy the consumer.

In appliances, though, wholesalers and retailers are often limited in the lines they can carry because of the high investment cost. So they pick and choose and often push the line that is the easiest to sell.

In depressed conditions that exist today in the consumer durable industry, this leaves some manufacturers out in the cold. Besides that, each manufacturer attempts to get the best distributor in town—and, with the price-cost squeeze on distribution profits, there aren't too many good distributors left.

All this adds up to the basic problem of a market loaded with goods: making sure your products are on hand when buyers are and that they get the necessary promotion against all the competition.

Reluctant as they may be, since the cost burden falls on them, manufacturers more and more are turning to owning their own middleman distribution to do precisely the kind of selling job that independents should.

Over-All Trend

The trend dates back over a decade. It has accelerated noticeably, though, in the last couple of years. And if appliances wind up 1960 with a load of inventory and a soft market, the trend will continue.

The reluctance of some manufacturers to talk of their plans makes a realistic appraisal of the situation difficult. Both Westinghouse Electric's Consumer Products Div. and Frigidaire Div. of General Motors refused any comment.

In the trade, though, it's been an open secret that Frigidaire is moving steadily toward factory branch distribution. One estimate has it that the company has reached the 50–50 point; another says that Frigidaire branches are now handling 60% of the distribution load.

Over the long pull, General Electric Co.'s Major Appliance Div. has gone to more branches. Before World War II, it had 17 branches, 33 independent distributors. Today, it has 26 branches and only 13 inde-

pendents, and concedes that this trend is being encouraged. General Electric's Hotpoint Div. does 75% of its volume via branches; a single big independent—Graybar Electric Co.—is credited with another 20% of Hotpoint's business. Philco has 10 branches; Admiral has 13. American Motors' Kelvinator Div. has 21 branches as against 36 independents.

In the big cities, particularly, the switching continues. Sylvania, Admiral, and Philco have all gone the branch route in Los Angeles. Maytag Co. has just started a Chicago branch. In Chicago, Easy Washing Machine Co. took its line from Remco, an independent, and opened its own outlet in recent weeks. And last year, Easy set up a branch for California.

Unhappy Situation

An executive of Easy told Electrical Merchandising Week, a McGraw-Hill publication, that the company isn't happy with the situation and would prefer not to terminate any more independent distributors. "But," he added, "we're not going to settle for third-rate distribution just to have independents." He complained that in some places Easy's line isn't getting the necessary attention. "Our line needs efforts," he said, "and we are going to get it."

Distributors feel that in the large cities, the independents are hurting. It was the loss of several of its lines that drove a big Chicago independent, Sampson Co., to Japanese lines.

Yet this isn't the whole story:

The branches aren't having it all their way. There's a counter trend—though somewhat spotty—toward independents in some markets.

Most companies, even those with a strong branch setup, insist they would prefer to work through independents.

Counter Trend

Some companies have actually moved away from branches. Admiral Corp. has cut its branches from 18 to 13 in the past five years. Borg-Warner Norge Div. tried a branch—its only one—in Chicago briefly, then closed it down. Hoffman Electronics' Consumer Products Div. is in the process of closing its last branch, in Los Angeles.

While independents have been withering on the vine in some instances, others have flourished. One large distributor says he has picked up several lines that got loose when a factory branch closed up. Knickerbocker Distributing Corp., Motorola distributor in the New York area, started as a branch, now is running on its own power; it reports business has quadrupled in three years. Peninsular Distribution Co. in Detroit has had a 20% volume increase yearly since 1955. And Whirlpool Corp., about alone among the giants, is still sticking to independents.

The paradox that branches flourish despite the manufacturers' prefer-

ence for independents reaches to the heart of the matter. When, where, how does a branch tick?

I. WHY BRANCHES

For the sake of argument, you might oversimplify the situation by saying that the branch is a measure of a strength and a weakness: the strength of the manufacturer, and the weakness of the market. Often only the manufacturer seems able to supply the heavy capitalization and large sales force, maintain the necessary broad-line inventory, and sustain the narrow profit margins that an uncertain and highly competitive market demands.

Finding the Money

It takes a heap of capital to carry the broad lines. One rule of thumb has it that to get good volume in appliance distribution requires capitalization of $150,000, plus $300,000 more in credit. GE cites estimates that "basic demands for working capital to cover accounts receivable, inventory and payrolls, plus necessary investments in plant facilities and rolling equipment call for an initial investment that is generally in excess of $1-million." It adds: "In the light of this factor alone, it is anticipated that the trend to factory-owned distributors will continue."

Slim Profits

However, the problem of finding the money isn't the whole story. An independent must make a profit to survive. And in these days of cutthroat competition, chaotic pricing has shaved some profits to a hair.

Some dealers blame the big manufacturers, each of whom, they say, is overproducing in hopes of getting bigger volume, and forcing merchandise on the distributor.

With slim profits and lack of capital squeezing the distributor, the manufacturer increasingly has to rely on his own forces. As a producer, he has two primary concerns: to keep the plant rolling, and to hang onto his share of the market. Profit at the distribution level becomes secondary.

Another reason for the branch gets fewer mentions. Some manufacturers feel that independent distributors have fallen down on the job. They are unwilling, especially, to put sufficient push behind new products.

II. WHERE BRANCHES SHINE

Once you go beyond the prime markets, the picture changes drastically. Here, most hands agree, the independent gets his innings.

Branches Expensive

For one thing, a branch setup costs a lot of money. As Philco puts it, it just does not have the wherewithal to set up factory branches all over the country. A manufacturer would prefer to put into production, research, and the like, the capital a branch system may tie up.

For another, in a factory branch, one line must bear all the costs. The only hope of profit from a branch is a concentrated market. That is why, many think, independents will probably hold their own in less-populated areas. An independent can spread out his costs over a number of lines.

The independent gets high marks on another count: The local or regional distributor knows his territory, knows his dealers. Often—through complementary lines he carries—he has access to retail outlets a manufacturer may not have.

For all these reasons most manufacturers would echo the executive of Packard-Bell Electronics Corp. who said, "We now have seven factory branches, and we'll be very happy to replace them with seven independents tomorrow—if we could find the right people."

III. WHERE NOW?

Lacking the right people, some companies have hit on a sort of compromise setup to shore up sagging distribution systems.

Reorganization

In the last five years, Admiral has drastically changed its concept of the factory branch. It treats branches just like independent distributors. Carl Lanz, sales vice-president, says, "The only thing wrong with factory branches were that too often managers weren't made accountable for inventory and the factory personnel were badly trained."

So Admiral capitalized its branches, made them responsible for profit and loss, instituted tight financial controls, and put on a vigorous training program. The result, according to Lanz: 18 months ago, all its branches got onto a profitable basis.

Maytag has a similar setup for three of its 10 branches. Although they are wholly owned by Maytag, they are set up to run on a profit-and-loss basis.

Sales-Oriented Production

Manufacturers more and more are turning to the view that a branch can't be healthy—any more than an independent distributor can be—if it serves merely as a dumping ground to keep the factory running. "We came to the conclusion years ago that pressing merchandise on a dis-

tributor just gives him financial indigestion," says E. B. Barnes, general sales manager for Kelvinator.

To lick this problem Whirlpool, like Kelvinator, uses what it calls "levelized production" based on sales forecasts. Even in this slow year, Whirlpool says it has not had to cut back production, nor has it glutted its distributors. And Whirlpool has also instigated a vigorous training program for distributors.

If the manufacturers are increasingly giving thought to the problems of their distributors—whether independent or owned—the distributors themselves in some cases are giving more thought to their job. Thus, Detroit's Peninsular Distributing Co., for example, maintains its own advertising and sales promotion staff, develops 95% of its own promotions, has a broad dealer training program, especially for dealer service men.

33 General Foods Makes It Easy for Grocers to Buy–and Get*

A network of GF sales-distribution centers spreading over the country has been changing the concept of warehousing operations, with area-tailored, individualized customer service that offers grocers speedy, "one-spot" order-delivery facilities.

Grocery retailers in the Philadelphia market area have just had a taste of General Foods Corporation's new recipe for blending sales and service of all GF products into a single, centralized operation—and they are finding it an extremely palatable one.

Now, in place of the old multi-operation service, retailers are getting service tailored to their individual needs, with orders taken through, processed at, and shipped (all products at once) from GF's "market warehouse," dependably—and fast. At the same time chain, voluntary, and co-operative warehouses are relieved of their three biggest headaches: "out of stock" emergencies, excessive inventories, inconsistent deliveries.

The sales-distribution center, or market warehouse (a new concept in warehousing), is the heart of GF's restyled operations. A network of 17 such centers is planned, scheduled to reach from coast to coast by the end

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of 1961. In addition to the Philadelphia project, they have so far been set up in Boston, Memphis, Youngstown, Minneapolis and St. Louis.

Organized individually to meet the requirements of the area served, each center offers retailers:

Individualized service.

Improved order taking and delivery procedures; better shipping and handling of GF products.

Receipt of products on a dependable, rapid basis.

Ready and complete information on the status of orders, shipments and sales problems.

Greater inventory turnover with lower capital investment and reduced warehouse space.

What GF hopes to achieve as the distribution network gets into full swing is frankly stated by George M. Perry, general manager of the Distribution-Sales Division: ". . . more business for our retail grocery store and institutional products. . . . [We want] to service our customers so they will want to do more business with us because it is profitable for them to do so."

GF foresaw the need for a wholly new distribution system about three years ago. Over the years its customers had justified complaints about not being able to get fast answers to their questions about orders. The old system, management points out, just wasn't built for speed in all its parts. There were many bottlenecks. Complexity was a weakness. A customer's order for several products was given to a territory manager who forwarded it to the area or region service office for processing. The region service office then ordered the products from each of the various plants or warehouses concerned. The customer's order for a mix of products was filled from several locations and shipped by various conveyances, all of which arrived at his warehouse at different times. Information about orders, delivery dates and billing was not quickly available.

In contrast, simplicity is the strength of the new sales-distribution services now offered by GF. A customer's order—whether sent by mail, taken by telephone or placed with a salesman—goes directly to the district sales and distribution center from which the products are shipped. In the new setup, sales and service people are closely coordinated, and one organization provides fast, complete, "one-stop" service on order processing, billing, credits, reports, warehousing and transportation. All information on orders, deliveries, billing, etc., is immediately available to the customer from the one source.

Before a center is built, the market area is carefully analyzed in terms of its gross volume of GF's various products, seasonal factors, trading areas, business practices, rates of turnover, and available transportation facilities. The needs of each individual customer within that particular market area are also studied: his way of ordering, his way of handling merchandise in warehouse and store, his merchandising programs, his

display methods. Based on these data, a custom-tailored service plan is drawn up, focused on the customer's particular needs as well as the general needs and opportunities for GF in that market.

Customers served by the new distribution centers are wholesalers, food chains, independent grocers, cooperatives, delicatessens—all sizes, from the little store around the corner to the largest wholesaler. All services required by them are offered on behalf of GF's Maxwell House Div. (Maxwell House and Sanka coffee); Post Division (cereals); Gaines Dog Food Div.; Jell-O Div. (gelatin desserts, instant puddings, puddings, pie fillings, minute rice, potatoes, etc., Swans Down cake mixes, Log Cabin syrup, Calumet baking powder, Walter Baker chocolate products); Birds Eye Division (frozen foods); Bireley's Operation (soft drink beverage bases); Institutional Products Div. (most products from the other divisions); Perkins Div. (flavored soft drinks in powder form, salad dressing mixes); S. O. S. Div. (soap-impregnated pads, plastic dishwashing aids, etc.); Laundry Products Div. (bluing, etc.).

The sizes of orders going through the centers vary all the way from 40,000 lbs. or more of a product for a large food chain to a small case of Jell-O for the corner delicatessen. All orders—large and small—are processed and shipped within 36 hours after receipt at the center.

Performance records of the centers are unusually high, says GF management. For example, in Philadelphia, although the distribution service plan has hardly been in effect long enough to adequately demonstrate the type of service GF means to provide, customers have received products on a dependable, rapid basis. During the month of January, a 90.7% performance record was achieved on rail shipments; 100% performance was set for truckload customers; for split truck shipments the performance was 91.1%. On the entire month's 347 shipments, the performance was 81.6%—318 shipments on time, 29 late. And in each instance of late delivery, customers were notified in advance and given the reasons for the delay.

"From what we've seen so far in the centers now operating, the future looks bright for us," GF management predicts. "By the time our sales-distribution network is completed across the country, we are sure we will have substantially increased the sales of all GF products."

34 Cracking a "Tiffany" Market*

Jones & Laughlin's tactics for marketing stainless are aimed at warehousemen.

More and more companies in today's stiff competition are changing the marketing tactics so fondly devised in the lush days right after World War II. Today, instead of seeing how much business they can sell direct without going through middlemen, they are wooing the wholesalers with all sorts of blandishments.

In the steel industry, no company has pushed this policy harder than Jones & Laughlin Steel Corp. has in the stainless steel field.

Late Entry

J&L was a latecomer in stainless—steel's fastest-growing product. The company bought into this branch of the industry when it took over Rotary Electric Steel Co., of Detroit, in April, 1957. With this acquisition, it got a bonus asset—M. K. Schnurr, a zealot on stainless steel's potential and an experienced hand at selling it.

Two months later, stainless headed into a deep dive. Yet, despite an unprecedented four-year recession in stainless, J&L's Stainless & Strip Div. has fought its way successfully into the market. For quite a few months now, it has been selling more than half its market goal in a market that has been taking only about two-thirds of the whole industry's capacity. It claims two-thirds of its near-term goal in the most critical stainless market it entered—cold-finished sheets.

J&L's Route

It got there by wooing the independent warehousemen.

In going to the warehouse, J&L was setting no precedent. More than 40% of all stainless goes this route. Better than 70% of stainless cold-finished sheet and bar move through warehouses. The big exception has been cold strip—whose major volume goes direct to auto makers.

Where J&L did break with precedent was in the thoroughness of its program to convince the best warehouses that J&L is unreservedly committed to selling stainless through them.

I. BREAKING IN

J&L wanted in on the stainless market for obvious reasons. Basically, stainless is more profitable than carbon steel. It is steel's greatest growth market. And J&L already had much of the costly equipment necessary to integrate the company it bought in 1957.

Shortly thereafter, J&L bought Cold Metal Products Co. of Youngstown, Ohio. CMP yielded a highly specialized precision product that averages $300 per ton, precision strip-rolling plant and knowhow, an experienced sales force, and Charles M. Beeghly, who, about three years later, succeeded Avery C. Adams as J&L president.

CMP and Rotary became J&L's autonomous Stainless & Strip Div. This represented $65-million of assets, had a potential of 150,000 annual tons and $150-million of revenues. But the potential wasn't entirely available until J&L brought in an expensive new flat mill at Louisville, Ohio. It began producing at the bottom of the 1958 slump.

Trade Reaction

Pretty widely, trade reaction to J&L's entry into stainless was an irritated, "Who needs them?" Two of the largest carbon producers—Republic Steel Corp. and Armco Steel Corp.—are at the top of the stainless list. Two of the principal specialty producers—Allegheny Ludlum Steel Corp. and Crucible Steel Co. of America—pioneered stainless. In April, 1957, no customer who could pay $1,200 a ton stood to go unserved if J&L didn't get into stainless.

Rotary brought J&L a not-so-hidden asset, though, in Schnurr, onetime Wall Street protege of Jesse Livermore, who got into stainless at the bottom of the Depression. Since stainless production figures were first recorded in 1934, Schnurr has seen his favorite product grow at a rate five times as fast as all steel.

II. THE DIFFERENCE

Schnurr figures you can always make a success in stainless, whatever the odds—it's just a question of how.

The how becomes critical in stainless because it's almost a different animal from carbon steel. Warehouses buy their 40% of total stainless from the mills at discounts ranging up to 10% below mill price. In carbon steel, almost 20% moves to warehouses at standard mill prices.

Stainless is different in the mill, too. Investment is perhaps one-third per unit that for carbon steel, where you gear up for vast volume, stand or fall on your tons-per-hour.

18-Carat Product

Stainless volumes are small by contrast, and the market far more volatile. The customer is buying a Tiffany-grade product at Tiffany prices. So he insists on Tiffany quality and service.

So a melting or rolling schedule—which is moderately sacred in a high-capacity carbon shop operating at any kind of volume—is strictly a football in a stainless mill. Schnurr concedes cheerfully that 75 changes a month are not unheard of in his Detroit melt shop. "In a real emergency, I can get a heat in the pot in an hour and give the man bar product in a day and a half."

"If you do this for the man just once," Schnurr says, "he'll be back."

III. HOW TO BUILD

Schnurr's first decision was the most critical: to sell as completely through independent warehouses as possible. Today, J&L sells more than 90% this way, and Schnurr vows it will sell direct only when the user insists on it or when J&L can't get effective warehouse representation.

Probably that decision was obvious. Warehouses had the customers. J&L didn't. Schnurr insists warehouses are better fitted to sell stainless than mills are. And, in the midst of a recession, Schnurr had to produce earnings right then—not after he had built a sales force.

Yet the decision implied some pretty brutal going. For years, the 10% discount had been breeding mistrust between mill and warehouse.

It gives both parties a margin on which to do some price fighting when business is slow. Also, the warehouseman likes to think stainless is his domain almost exclusively—except for automotive strip. The mill, on the other hand, is conditioned by the carbon steel tradition: When a customer grows to a given volume, he normally becomes a mill customer.

So warehousemen tend to ask mills, "Will you love me when volume is low the way you do when it's high?" They are reluctant to call in mill assistance on metallurgical and fabricating problems for a customer for fear the mill, one lean day, will steal that customer.

Sales Pitch

Schnurr's problem was how to persuade the warehouseman that J&L would stick with him.

"Every producer," says Schnurr, "is first-class on price, on quality, on service. You can't advertise your way in over the programs already going."

So Schnurr built a program to penetrate the insulation he believes all businessmen erect against the onslaught of sales approaches.

The heart of the program took a year to develop. It was designed to

make the warehouseman convince himself that J&L is on his team to stay. Schnurr believed that a supplier must help solve his customer's problems —and in the customer's context, not the supplier's.

Top-Flight Help

What are the warehouseman's problems? Most serious is an alarming profit erosion that has come with warehousing's fast growth. To remedy that takes top-flight management.

Schnurr reasoned that almost all but the mill-owned warehouses are too small to command professionally trained management. Maybe J&L could help. If it could—regardless of whether a warehouseman handled J&L stainless—maybe a warehouseman might believe J&L is his supplier, not his competitor.

Schnurr enlisted top help, Hoke Simpson, director of executive programs at Columbia's Graduate School of Business, to develop a management program for top-level warehouse executives. In four-day sessions, participants—including some from J&L's toughest competitors—learn not what decision to make but how to recognize the need for one, how to apply management principles in making it. Professional consultants conduct the classes.

The first seminar was held last fall at Columbia's prestigious Arden House. It was impressive enough to warrant four regional repeats for middle management coast to coast. Another troupe of top-level people goes to Arden House this fall, and another meets in Los Angeles.

Schnurr starts off these 14-hours-a-day sessions by welcoming the guests. When they end, he thanks them for coming. That's the J&L commercial.

Schnurr says he has been asked repeatedly by participants, "Mike, why don't you sell J&L more?" There's not a Chinaman's chance that he will. Schnurr figures that the program content, emphasized by the absence of a J&L spiel, makes his point.

Rewards

Has it worked? Schnurr is far from content with his over-all position in the market. But he points to some benchmarks of what he considers genuine progress:

J&L stainless is in more than 140 warehouses—only four of them in the J&L Warehouse Div. Not all are earning as much as they could, but a lot are close to it.

Schnurr asserts flatly: "We are in. I claim we have consolidated a position as a major factor in flatrolled stainless."

From the management program, Schnurr knows where his merchandising should concentrate for some time: on warehouse management.

In mid-May, J&L's warehouse support program won the annual Producer's Award by the Steel Service Center Institute. "Nothing we

could do could shout so clearly that we are for the warehouseman, not competing against him," Schnurr says.

35 How Ducommun Achieves Top Sales Efficiency*

BY E. N. WOOD

This giant West Coast industrial distributor has built up a $55.3 million sales volume through automated selling and warehousing methods.

Ducommun Metals & Supply Co. has built a $55 million annual industrial distributor business by "always giving the customer what he wants."

The quote is from Charles E. Ducommun, president of the 111-year-old Los Angeles company. He might have added: ". . . giving the customer what he wants—*always at a profit to Ducommun.*" Profitability of *all* phases of its business is a major key to the company's success.

That success can be measured in several ways:

Last year the company had sales of $55,389,792—making it one of the five largest independent industrial distributors in the country.

Ducommun now has, in addition to its newly-enlarged 350,000 sq. ft. Los Angeles headquarters, a San Diego division; an Arizona division; a northern California division; a Pacific Northwest division (now being expanded by the acquisition of the Barde Steel Co.), and a wholly-owned subsidiary, the A. J. Glesener Co. of San Francisco.

In addition to these "plants," Ducommun has sales offices in Salt Lake City; Bakersfield, Fresno and Santa Barbara, Cal.; Tucson; Albuquerque and eight Texas-Oklahoma locations of the McCormick Steel Co. (also newly acquired).

Ducommun now is moving into the electronic components distribution field through the merger—now nearing its final stages—with Kierulff Electronics, a $7 million annual volume electronics distributor.

The company's catalog lists approximately 65,000 items of more than 60 manufacturers. It has 15,000 regular customers.

Sales Strategy

President Ducommun stresses that the company's selling strategy has been based on the "key line" principle: "We pick lines for specific mar-

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kets so that we can earn the highest percentage of return on our investment dollar in that line."

Mr. Ducommun explained that the continuing effort of the company's market research department is to analyze each product line's potential. If an item appears to be losing ground in a specific market, the search is on for reasons why.

Also, outside salesmen are trained to analyze their own territories; and on a quarter-to-quarter basis, they estimate what they expect to realize on specific product lines in their territories.

Their estimates and the later comparison studies of actual sales are reviewed by the merchandising policy committee of the company—which then decides what action to take to spur lagging items; whether to increase the inventory of fast-selling products; and if necessary, to drop items that have reached a point of low profitability.

Advertising

When the company is considering alternative ways of building profit, advertising and promotion naturally come into the picture.

"While we have for years had some direct advertising and promotion in various media," Mr. Ducommun states "we feel that advertising principally creates a general impression, rather than direct sales *per se*."

The company's principal promotion piece is its large catalog, which is issued every five years to 30,000 key industrial purchasing agents (a metals stock list is issued more frequently). The advertising and sales promotion program also includes:

Information brochures prepared by suppliers and relayed to Ducommun customers and prospects.

Business paper advertising in such publications as *Pacific Purchaser*, *Southwest Purchasing Agent*, *Wall Street Journal*, *Washington Purchaser*, *Western Industry*, *Western Machinery & Steel World*, and *Western Metalworking*.

For the first time this spring, in cooperation with Alcoa, a six-week spot radio campaign in Los Angeles, San Francisco and Seattle. (A similar campaign will be conducted this fall.)

Exhibits at building, architectural and metalworking trade shows.

The Sales Staff

Naturally, the company's success depends primarily on its sales staff. And for that reason, Ducommun maintains a continuing search for qualified management and sales personnel by means of widespread contacts in industry and scouts at major colleges and universities.

At the Los Angeles division, men considered suitable for training are put through a 21-month, formal course which breaks down into roughly the following phases:

Warehouse Training—The sales trainee spends full time in the warehouse for ten weeks, rotating from one department to another for short

periods, on a fixed schedule, being introduced to the problems of materials handling, inventory control, cost control on high cost items, etc.

Pricing—Following the warehouse orientation is a month of intensive study of the 1,000-page catalog of products. The trainee learns about basic products, as well as information on pricing, metal-cutting charges, and coding of orders for the RAMAC electronic data processing system.

Product and Sales Technique Classes—After the foregoing, the trainee attends formalized classes for ten hours a week for ten weeks. Three main categories are covered: detailed product instruction, sales techniques, and company management philosophies. The trainee meets many of the top management personnel and hears firsthand information on the company's operating procedures, goals and objectives.

Inside Sales Training—After these classes, approximately three months are spent as assistant in the inside sales department. Here the trainee makes his first customer contact and becomes aware of the intricacies of bidding on competitive jobs, inventory control, etc.

Inside Sales—A minimum of one year of experience as an inside salesman follows. This period may be extended sometimes to two or three years, depending on various factors such as availability of openings in the outside sales department, individual performance, etc.

Product Departments—Due to the complexity of certain types of products the company handles, some trainees spend six months to a year in specific product departments. Specialized knowledge of complicated items is acquired here, and some trainees eventually become product specialists. Here, in addition, problems in purchasing techniques are faced and the trainee begins making calls with outside salesmen.

Besides this basic sales training program, Ducommun offers supplementary classes in metallurgy, blue print reading and machine tools. Also, under its education refund plan, 75% of tuition costs of successfully completed courses at colleges or universities are refundable to the student.

Field Sales

Ducommun's 60 outside salesmen in the Los Angeles division (and approximately 125 in the entire corporate structure) are either specialists or "broad-line men." The general line salesmen handle all of Ducommun's lines, and emphasize about 15 key lines. They must be familiar with the characteristics of each of the product lines they handle.

The other salesmen specialize, calling on certain industries, such as aircraft companies, architectural firms, or precision tooling establishments.

The size of these men's geographical territories varies, depending on the industrial density of the area and the type of customers they are contacting. All the salesmen have a considerable degree of technical information, process knowledge, and accumulated merchandising know-how, as well as their fundamental selling skills.

RAMAC

But Ducommun also realizes that follow-through is vital to an efficient sales organization. So, last year, it installed a RAMAC 305 computer for electronic order handling and inventory control.

As a result, the outside salesmen enjoy better customer relations. And, when one of 66 Los Angeles inside salesmen gets a telephone order, he checks the catalog to see if he can arrange a quantity discount, checks through RAMAC to see what quantity is on hand to confirm a time of delivery, and bids the job—all without leaving his desk.

Warehousing

Another step taken by Ducommun to speed sales follow-through is the revision of its warehousing program.

Now duplicate railroad spur lines enter both ends of the warehouse. Metals are unloaded and stored by vertical stacker cranes, which stack the stock on skids atop cantilevered storage racks.

When stock is ordered out, the same stacker crane efficiently removes skid and stock together from the rack and carries it to the center of the warehouse floor for weighing and packaging. Damage to stock has been greatly lessened by this technique, which also permits faster order handling. All materials leave from the center of the warehouse, many of them delivered by the company's fleet of 33 trucks. A three-shift operation arranges for most shipments to be loaded at night. (A heliport is available next door for still faster shipment of lightweight items.)

'Long Run'

Discussing the problems which arise in such a large merchandising organization, Charles Ducommun points out that one of the biggest needs is for an equitable method of quantity bracketing in the merchandising of industrial supplies. In addition, in recent years, he points out, distributors such as Ducommun are beginning to insist on manufacturers making their sales policies known in writing. Sometimes the distributor finds that he is dealing with a manufacturer who does not have the moral fiber to resist filling a large order directly from the factory, thereby cutting out his distributing organization. The distributor then finds himself competing directly with his own supplier.

"When times are good, some manufacturers find it easier to have moral fiber," Mr. Ducommun observes. "But when things get tighter, manufacturers of that type find it harder and harder to refuse orders that cut out their distributor. But that's playing a short-run game, because when times get good again, the better distributors won't trust a manufacturer like that. They won't handle his product."

He goes on, "In merchandising, you will always find a certain number of marginal manufacturers. They're the ones that cause the trouble.

It's a matter of finding out who they are through experience. And, too, there are the marginal distributors. That's the other side of the coin."

Price Cutters

"The marginal distributor," Mr. Ducommun said, "tends to drive the price level down in order to break into a market. The other distributors are faced with meeting this depressed level in order to maintain sales.

"The big concerns are strong enough to weather the storm. They can meet any price these small marginal distributors want to set. But it's the middle-size distributor who usually doesn't have the assets to stand the gaff. He may go under trying to meet that kind of competition.

"The larger, better established firm can cut its costs internally, to meet lower prices and still make a profit, because it usually has the financial strength to give it the time necessary to do this. It can invest in machinery to cut operating costs, materials handling costs, order-processing costs. The middle-size one often can't.

"But in the long haul, good manufacturers don't want to trust their product to marginal distributors, who usually don't build effective organizations. So they don't last long. Maybe one generation. They haven't enough capital to attract professional management talent.

"I call them one-generation outfits. They may carve out a little business for one or two generations, maybe a father-and-son setup. But because they have no strong managerial talent, when the family dies off, they're through. They have stayed too small to be a serious threat to the larger concerns which can afford to reduce their costs and operate efficiently.

"So over a period, the small marginal distributors operating on a cut-price basis usually only succeed in hurting the middle-size firms and not the large, professionally operated, well-financed companies."

Cooperation

Ducommun's fundamental philosophy, he explains, is to "solve our own problems first. If our costs are too high, we've got to cut them ourselves, not go crying to the manufacturer for a bigger margin to operate against. But—once we've put our own house in order and we know we've done everything we can to get our own problems solved, then we enlist cooperation from the manufacturer.

"For instance, in electronic data processing, if we can develop a punch card system that is compatible with that of our suppliers, we can both cut costs. The same card can travel through their organizations as well as ours. Then we both have opportunities to lower costs. We're trying to work out cooperation with some of our principal suppliers in that way."

No Plodding

"Of course we anticipate new opportunities in the future," Mr. Ducommun said. "As far as opportunities go, we're just beginning to reap the harvest of long-range corporate planning started after World War II.

"And change brings new marketing problems, no question of that. For instance, there's no use denying that the development of fast air freight transportation is something we've got to keep an eye on.

"Right now—and more so in the future—small size, lightweight, high-value items like gyroscopes can be shipped from one coast to another in five or six hours. And if a customer wants that kind of product in that much of a hurry, and the value is high enough to cover the higher shipping costs, we have to realize he's apt to try to deal directly with the manufacturer. The manufacturer can get it to him by air as fast as we can on the ground, absorb the cost, or pass it on, and still charge less than we have to. We have to be aware of developments like this. However, on bulk items like heavy metals, we believe that we won't meet that problem for some time.

"Our long-range corporate planning job is to keep abreast of such developments and keep in mind the changing character of our markets. If we plan far enough ahead, and are versatile and adaptable enough, we will continue to earn a competitive return on the capital invested in this business.

"The thing we can't afford to do is plod along in the time-honored way, figuring that what was good enough for the last generation is good enough for us. What we're trying to do is anticipate developments and make investments that will yield as much or more than those in other fields of industrial opportunity. If we can do that, we can keep moving forward."

PART FIVE

PHYSICAL ASPECTS OF MARKETING

36 Distribution: Key to Cost-Cutting*

Distribution is one of the greatest remaining frontiers in cutting marketing costs. Advertisers are exploiting it in dramatic new ways: sharp reduction of warehouses and inventory, electronic order-processing, more efficient shipping.

The main obstacles are widely segmented distribution functions which must be integrated, and salesmen who resist having distribution responsibilities taken from them. But the savings inherent in streamlined distribution—as this report shows—are too considerable to be overlooked today.

In a few weeks marketing men will be reading about a huge new electronically controlled distribution center for Westinghouse consumer products in Columbus, O. Automatic equipment will process orders from all over the country and route them back by telegraph to the nearest Westinghouse supply point—within a matter of minutes.

The new Westinghouse system is just one part of a wave of change that is sweeping over the nation's distribution.

In the past year it has touched almost every major industry from food to machine tools. Some of its major manifestations are:

delivery from producer to customer in a matter of hours or one or two days, instead of up to two weeks

order-filling twice, three or four times a month, in place of once a month or less

inventory levels for dealers and distributors of half or one-third their former levels

inventory-taking once a quarter, in place of once a month

automatic order-processing which completely eliminates hand-writing of orders

a major portion of salesmen's time freed for them to spend on creative selling in place of relatively menial tasks such as inventory and order-taking

This wave of change is just getting under way—despite the giant strides that have been made in transportation and warehousing facilities over the past 15 years. But it has been mainly in the past three or four years that marketers have been learning how to use these facilities at top efficiency—usually with the help of elaborate data-processing equipment.

The profit squeeze has been one factor behind the radical recent changes. But efforts to pare the costs are not the only factor. Many companies cite a drive to improve service as a major reason for streamlining distribution—an effort to help dealers and distributors operate more efficiently, with less cash tied up in inventory, with more accurate records of product movement, more time to spend selling and promoting.

For marketing men the new look in distribution has far-reaching significance. In companies that have streamlined distribution, marketing men have more time and energy to devote to selling, promoting and advertising. Streamlined distribution has made them more marketing specialists by relieving them of distribution responsibilites. It has sharply increased marketing competition—especially in such industries as food and electronic components which have moved fast in improving distribution. And it has given marketing men important new sales messages—above all the message of improved service to customers.

The changes in distribution patterns have generally taken three directions:

reducing the number of warehouses used by the manufacturer, so that order-processing can be handled on a more efficient, mass-production scale. More nearly complete lines of merchandise can be carried in each warehouse; and there is less duplicated inventory.

At the same time, lines of communication between customers, distributors and the manufacturer are shortened. This may involve electronic order-processing at a central distribution point, and telegraphic order transmittal, as in the case of Westinghouse.

New means of transportation—such as piggyback railroad shipments and air freight—are being brought into play. Faster transportation plus faster order-processing usually result in a great speed-up of deliveries, even if the reduction in warehouse locations removes the supplier much further from his customer.

I. Electronics Move Fast

The electronics replacement parts and appliance makers have taken some of the greatest strides in streamlining distribution recently. Raytheon Corp. of Waltham, Mass., now moves its distributor division freight by air out of a single distribution point in Westwood, Mass., for example.

Two years ago Raytheon was maintaining warehouses for these items (mostly tubes and transistors, with annual sales running into seven figures) in the cities of Chicago, Portland, Ore., Los Angeles, Atlanta and Dallas. Salesmen went into distributors' warehouses each month and took inventory, made up their orders and mailed them to the nearest warehouse. Delivery—by truck or rail—took up to 13 days, with six or seven about average.

Today, orders are collected automatically on IBM cards, telegraphed to Westwood where they are processed. Within a matter of hours the delivery is on its way.

Salesmen sit down with the distributors for one lengthy session of inventory-taking and order-calculating when the system is first installed, and then are freed of these chores except for occasional checkups. In this initial stage, the salesman goes over the past 12 to 18 months' sales with the distributor, analyzes sales trends of each item, sets up maximum and minimum inventory levels. Often this results in reducing his total inventory, as some items may be dropped. Initiated about two years ago, the system is now in effect with almost all of Raytheon's 700 distributors.

Ordering is virtually automatic. Each case of goods sent to the distributor contains a pre-punched card specifying item and quantity. The distributor collects the cards as he sells the goods. Every week or ten days he runs them off on a machine in his warehouse, which transmits the data telegraphically to the Westwood distributing center. He gets his orders once a week now (on the average) instead of once a month, with delivery time reduced by five or six days in most cases. Raytheon estimates the total savings from the new system (which it calls "Unicenter") at about $250,000 a year.

Perhaps more important, it bolsters salesmen's efforts in at least two respects:

It gives them a strong new selling point to talk about. Company officials believe this was an important factor in winning over many of CBS Electronics distributors when CBS announced in June that it was withdrawing from the tube business.

It gives salesmen more time to spend on special promotions. Raytheon introduced its 1961 marketing plans with an elaborate promotion involving four teaser mailings, and personal calls by field salesmen carrying gilded flipcharts in red velvet bags.

Summing up the benefits, Raytheon wrote in its Management Bulletin recently, "Operating cost savings of ten per cent and a marked improvement in availability of product to customers are the main results. . . . Inventory has been reduced $1.5-million. . . . Availability of product is now 96 per cent, meaning 96 times out of a 100 we have it and ship it. This compares with 65 per cent availability under the previous system. . . ."

Now Raytheon is in the process of expanding the Unicenter system to others of its 13 divisions, with the semiconductor division as first step.

Some other companies are claiming almost as fast delivery as Raytheon, using standard surface transportation plus electronic order-processing equipment.

One of the biggest jobs of distribution streamlining is going on at Westinghouse Electric's apparatus products group. The new Westinghouse distribution center in Columbus, O., receives orders from all over the country telegraphically, processes them, automatically selects the nearest shipping point for an order and relays the message on to that

point—all in less than 30 minutes. Deliveries arrive in one or two days.

With the help of its giant IBM Ramac computer center, Westinghouse has been able to cut inventory of one product alone from $5-million to $2.7-million. It's reduced warehousing costs, and improved cash flow by at least five days, computing officials say.

The company has been able to close branch warehouses at a drastic rate, now ships almost all consumer products from Columbus or another major center in Ogden, Utah.

The system has made delivery so fast, the company claims, that salesmen are virtually never called on to follow up orders. Using Westinghouse's internal telegraph network, the new system has actually reduced telegraph costs because the number of orders was more than offset by reducing the cost of follow-up.

Westinghouse has been streamlining distribution in its other divisions, too. Its pattern is to collect all product lines in large distribution centers. (Formerly, it maintained separate warehouses for each division. Now it can ship mixed orders from a central point, rather than shipping a number of orders from different warehouses to the same customer.)

It has been able to slash the number of field warehouses—and the amount of inventory duplication. Since 1958 it has eliminated over 100 field warehouses and sales offices, plans to lop off another 50 or so by 1965.

By that time, Westinghouse plans to maintain only 30 key distribution centers, plus 50 to 60 other storage facilities to serve smaller markets. Estimated savings in rent and maintenance will exceed $1-million annually.

Sylvania Electric installed this year an automatic ordering system (dubbed "Order-Matic") which uses the same type of punch-card ordering as Raytheon and Westinghouse. The major difference: Sylvania distributors mail the cards to three major distribution points—each equipped with electronic order-processing facilities—rather than telegraphing them.

Under this system Sylvania claims it gets substantial reductions in inventory, can service orders much more frequently; salesmen are freed of monthly inventory-taking and much other detail work; Sylvania sends distributors monthly records of the movement of their stock; distributors in turn are made more aware of the importance of careful inventory control.

"Eventually," says Sylvania marketing manager Alfred Viebranz, "we'd like to set up our distributors like food stores—with two deliveries a week and no back orders."

II. The Savings Potential

These moves are indicative of the changes that are taking place in nearly all segments of industry. As one management consultant told

PRINTERS' INK last week, "There are very few companies that haven't got a lot of problems in distribution, and aren't thinking about them very seriously. Recognition of the savings potential in distribution is almost general in industry now."

A few common patterns are visible in almost all of the distribution reorganizations. Most involve the elimination of field warehouses and thus reducing the manufacturer's inventory. Most aim to consolidate all of the manufacturer's product lines in one or a few central distribution points. This may be done by centralizing manufacturing for all product lines in one location—as General Electric did when it established its huge plant in Louisville, Ky., to manufacture a broad range of consumer products. Or the company may keep separate manufacturing plants for different lines, then bring them together in central distribution points. (This is what Westinghouse did.)

A major goal of these moves is to enable the manufacturer to ship mixed carloads from a single point, rather than shipping less than carload lots from several different points to the same customer. In many cases this enables both manufacturer and customer to reduce inventory levels.

And the search for more speedy methods of order-processing, more economical methods of transportation, goes on throughout industry. These are some of the outstanding examples in recent months:

Lever Bros. is aggressively cutting out its small-order warehouses, keeping only large distribution centers, strategically located so that 80 per cent of Lever's customers are within 24 hours of complete stock. In the past decade Lever Bros. has trimmed the number of its warehouses from 140 to about 40. Eventually it plans to maintain only 20 major distribution centers.

Merchandise from Lever's eight specialized manufacturing plants is assembled at each distribution center—which has eliminated much of the problem of small orders. Now most small orders which are costly to transport move short distances, reducing costs and improving service.

Ordering has been speeded up, too, according to Rudy Waehner, general manager of Lever's distribution division. Lever now processes orders at three central locations, then relays them automatically to the nearest shipping point. Waehner estimates that customers now order about three times as frequently as they did five years ago, are now getting 26 inventory turns per year, compared with eight formerly.

The improved customer service has, of course, been a strong selling point for Lever salesmen.

Lever claims it gets further economies by using public warehousing, rather than maintaining its own facilities as do many other companies. It keeps its own warehouses only at eight manufacturing plants. "If your business fluctuates, you must provide the maximum investment for peak periods and maintain that investment during low selling periods,"

Waehner said. "With public warehousing, you use only what space and services you need, when you need them."

Pillsbury Co., which once produced its entire line at each plant, had 100 branch warehouses controlled by 33 separate sales offices. Today Pillsbury plants each specialize in a few lines, and warehousing at plants is held to an absolute minimum. Instead, goods flow in carload lots to regional distribution centers which can make up mixed lots easily.

Order-processing is concentrated at four regional centers instead of 33 sales offices. Result: Pillsbury guarantees third-morning rail delivery anywhere in the U.S.; before, it often took a week or two to distant points.

American Stores Co., a retail grocery chain, moves meat to its stores by piggy-back trains on top-priority schedules. This eliminates intermediate warehousing and handling.

Through these and similar moves, virtually every segment of industry is exploring some way to speed up distribution, lower inventory levels, bring more efficiency into the whole distribution process.

III. The Sales Executive

What do these sweeping innovations mean for sales and marketing executives? Generally, they can spend more time and effort on creative selling and promotion. Streamlining distribution has usually relieved salesmen of much of their inventory-taking and follow-up chores.

It has helped them become more effective in two ways: First, it has given them one of the strongest new sales messages possible; improved service. Second, it has freed them to develop more intense promotional programs, to make more effective use of advertising. It's meant an intensification of competition.

Streamlining distribution has also met with resistance from sales executives in some cases. Reason: It has usually meant setting up a special distribution division, department or manager, and taking responsibilities for distribution out of the sales bailiwick.

"Streamlining distribution involves a necessary change in the outlook of sales executives," said Philip Cannon, vice-president of Barrington Associates, New York management consultants. "Formerly they were in charge of many warehouses as well as marketing. When distribution is streamlined, there's no longer a warehouse with each field sales office. There's always a certain resistance by sales people to the removal of these warehouses."

This resistance is one of the reasons why a majority of companies still tolerate outmoded distribution systems, and are slow in taking advantage of possible improvements. "Too often," said Cannon, "distribution functions are left to fall between management chairs, or split up between different departments. Nobody has a clear idea of costs or what could be done to improve them."

In the single area of inventory control, scientific practices are still surprisingly rare, according to New York management consultant Robert Pere. Relatively few companies have an accurate idea of total inventory costs, including costs of ordering, costs of storing, quantity discounts.

And inventory costs are much higher than generally realized. Inventory investment in many companies represents one-third or more of total assets.

The annual cost of carrying it averages more than 20 per cent of the value of the goods. Yet in a survey conducted three years ago of 76 of the nation's top companies, Pere found that only one-fourth used an economic lot-size inventory control method—considered basic to efficient inventory practices.

First step in remedying this situation has been to establish an integrated distribution function, with responsibility for scheduling, shipping, warehousing, order-processing—the entire range of distribution functions. This is the course which Lever Bros., General Foods, General Electric, Pillsbury, Raytheon, and a host of other progressive companies have taken—and invariably it has involved a top management decision with considerable realignment of responsibilities.

IV. The Next Steps

Integrated distribution is a relatively new management concept, and still has a long way to go in fulfilling its potential for increased efficiency in industry. "Today," said Cannon, "most companies with multiple plants have a hard time pulling together their story on distribution costs for their own internal use."

He pointed out that companies with $15-million annual sales and up are considering electronic control of production inventories along with other corporate records such as payroll accounting. The level at which electronic control can be used profitably in the distribution function may be similarly low.

Other advances in distribution economy depend largely on transportation and shipping methods—the development of piggy-back transport, further cost analysis of air transport, advancements in containerization. These are areas that marketing men will be watching more and more closely, and one of the greatest remaining frontiers for cost reduction.

37

Automated Order Picking*

The Warehouse That Operates on Punched Cards

BY STUART SHRYER†

Back in 1806 when William Colgate set up his kettles in New York and grew into this young nation's top soapmaker it was hardly with the expectation that this little business would blossom into a $600 million operation that today spreads the Colgate name over the vast reaches of the free world as well as into 94% of all American homes.

It's a long story, of course, of growth, of mergers (with Palmolive-Peet in 1928), of men developing and maturing in an organization of executives who impressed on their company and their times the growth dynamics of the first big business expansion period, 1921–29, and then rebuilt from new and broader foundations for the current postwar growth period.

These were the Little years, the era in which Edward H. Little (he started with the company in 1902 and became president in 1938) grew with the organization into its present-day importance and his own top position as president and chief executive officer, from which he retired this year, naming George H. Lesch his successor to both posts.

Mr. Little's associates at the company boast quietly that in the 22 years of his top-executive incumbency the company sold more than $7 billion worth of products at a net profit of $250 million, of which $120 million has been paid out in cash dividends plus 20% in stock. Mr. Little, who still retains the post of chairman of the board, ushered in the era of bold company expansion and plant modernization. Since World War II the company has laid out more than $180 million, and future authorized expenditures for capital projects today are estimated at around $41 million.

Upon the shoulders of Mr. Lesch, president and chief executive officer, will be the responsibility for supervising these vast new developments designed to maintain the company's position "on stream" in the current revolutionary changeover in the nation's grocery business.

Already one of Colgate's more ambitious modernization projects is in operation, has been for a year now, at Kansas City, Kan. The full story of this unique new concept of manufacturer distribution operations is fully described on the following pages by Food Business'

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* Reprinted by special permission from *Food Business*, November, 1960.

† Managing Editor, *Food Business*.

Stuart Shryer, managing editor, who made a personal study of the operation last month.

What the impact of this new kind of manufacturer distribution operation will be on big retailing in the grocery, drug, and variety fields cannot yet be known. It is one of the few operations of its kind in this country. There are other ways of doing the job: General Foods, for instance, is programming its 19-distribution-center operation due to be fully operating next year; Quaker Oats is moving in the same direction; others are studying possibilities.

But it was the Colgate organization that first experimented with and then operated an ultramodern manufacturer distribution center. So far the Kansas City operation handles only the products of the company's Toilet Goods division sold to grocery, department, variety, and drug stores in the midwestern region of the country.

It is too early to say that similar distribution centers will be set up in other company operating points: Jersey City, Jeffersonville, Ind., and Berkeley, Cal., or that products of other divisions: Household Products (soaps and detergents), and Associated Products (institutional) will be added to the automatic distribution system.

The automatic distribution center is designed to handle products cheaper, faster, more efficiently, and with fewer errors (important where many products are ordered in small quantities). Speedup of processing and delivery gives the buyer a better in-stock position of products on store shelves, even though he maintains his normal schedule of ordering at 4- to 6-week intervals.

Ask any food marketer—manufacturer, wholesaler, or retailer—where his last frontier of upgraded profits lies. Chances are his answer will fall somewhere in the area of material handling. He may call it warehousing or shipping or inventory control or anything else in the multiplicity that moves a product from production to supermarket shelf, but there is no longer any doubt that in this realm of material handling lies a vast untapped time-and-money-saving source.

Even with this realization, precious few manufacturers have stepped as far as Colgate-Palmolive did one year ago when it threw the switch on its electronic distribution center in Kansas City, Kan. Even with the usual "bugs" that inevitably follow new-concept engineering, some already cured and others being cured, Colgate management is ready to take its automaton—which cost less than a quarter of a million dollars—out of the "promising experiment" class and ino the "approved" category.

Sophisticated Efficiency

This distribution center, filling toilet article orders in a wide midwest area bounded roughly by the Mississippi River on the east, the Continental Divide on the west, and the Canadian and Mexican borders, is a sophisticated combination of electronics, live storage racks, and conveyors. Punched-card-directed automatic conveyors have replaced ap-

proximately 80% of former hand order picking. The operation is currently moving as many as 15,000 cases in a 7½-hour work day, with an average order including perhaps 30–35 cases, well mixed in small case lots.

And that's the reason-for-being behind this Colgate warehouse that takes automation about as far as it can economically go: It moves tonnage more efficiently, more accurately, more economically, and at the same time enables the company to be of even greater service to its customers. Along with that a daily inventory becomes routine and economical, reducing out-of-stock problems and giving production a better planning picture; orders are delivered a full day sooner; accuracy is increased.

Designed and built by the Alvey-Ferguson Co., the system integrates all operations from the time stock is placed on storage racks to loading into highway trucks in predetermined truck-stop sequence. Punched cards are fed into a General Electric Directo-Matic control unit that reads, sorts, and memorizes orders at a rate of 100 cards per minute. Cartons slide automatically from the racks at 50 per minute or better.

The G.E. electronic control tells the racks what items to release, when to release, how many cases, into the conveyorized accumulation and dispatching system.

The Procedure

Perhaps the best way to catch the impact of what this innovation in distribution is doing for Colgate-Palmolive is to follow an order through from entry to shipping. Here's the procedure:

Salesmen's orders are mailed (some phoned) to a central receiving point across the river in Kansas City, Mo., where shipping orders, bill of lading, and memorandum of shipment are prepared simultaneously on a standard form. Part of that form is a paper stencil that will eventually be used to label each case in the order.

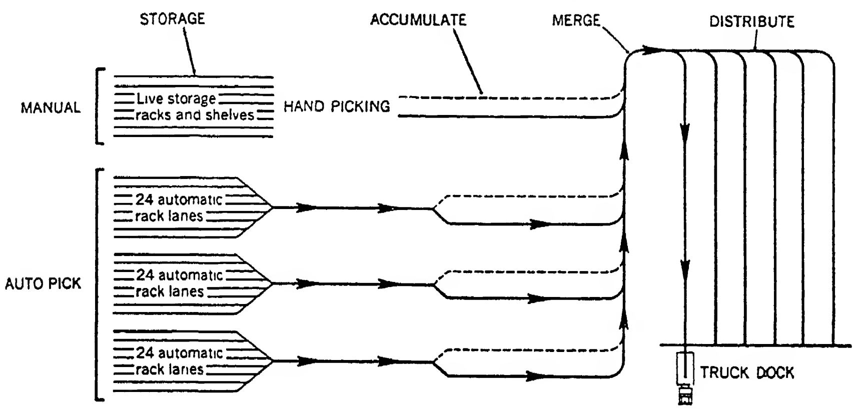
At the same time, the accounting machine prepares a punched card for each item ordered, holding such information as invoice and customer number, date, stock number, quantity, amount, salesman, trading area, and other pertinent data. These cards will not only be used to actually pick most of the order, but they become a perpetual inventory record, a to-the-minute indicator of product movement, an aid to speeded-up accounting.

Each day's batch of cards are transmitted along with shipping orders and bills of lading to the warehouse, where they begin actuating the order-picking and assembly system. Although punched cards are prepared for each stock number ordered, not all are used to pick the order. If an item can be shipped in pallet-load quantity, a second card is made and this item will not be picked from the system. If quantity ordered

on that item is more than a pallet load, spillover will be recorded on still another card that will go to the Auto-Pick.

Obviously, this type of system could be stretched beyond economy if slow movers were included on the live storage racks. Thus, there are 72 racks which carry the 72 most active items out of a total of about 250 stock numbers. These 72 items account for around 80% of movement. The remaining products are racked alongside the system for hand picking. Their punched cards, then, do not go into the card

SCHEMATIC DIAGRAM OF AUTOMATIC ORDER-PICKING SYSTEM AT COLGATE-PALMOLIVE COMPANY, KANSAS CITY.



Dotted lines indicate path next order will follow. Next order is picked while previous order is processed and dispatched to assigned truck dock.

reader. Instead, instructions for these items are taken directly from the shipping order.

The 72 leaders are revised each month merely by running the punched cards. About 5 changes are usually called for, including deal items, generally a must on the automatic line. It takes about 2 hours to make these 5 revisions on the line.

The live storage racks are actually 72 gravity conveyors, continually loaded from the rear, arranged in 3 decks of 24 lanes each. Twelve lanes are 75 feet long, 60 measure 50 feet. The system, then, includes 30,900 feet of mobile storage space. Cartons are discharged onto moving belts that traverse the face of the rack at each of the 3 levels. At the end of the 3 belts are case deflectors that are automatically set either left or right, allowing each belt to empty alternately into one of 2 conveyor lanes to accumulate an order. This permits picking a second order while the first is being processed.

Slower moving items are stored alongside the Auto-Pick lanes, with their own belt that converges with the automatic items. The 2 procedures are coordinated like this:

The operator receives punched cards for automatic items plus printed instructions for hand-picked items. He also gets the assigned truck dock number. He puts a small tote box coded for the designated dock on either the right or left slow-mover-item conveyor as indicated by a signal light. He puts the punched cards in the reader and places the hand-picked items on the conveyor behind the tote box (which carries bill of lading and shipping order). The system then automatically converges all parts of the order (except pallet loads) on a single-lane conveyor by emptying one line after the other, leading out with the tote box, and moves it to a point where delivery address is stamped on each case as it moves by (stencil is attached to shipping order). An electric eye at this point checks case count.

Orders continue on to one of 6 overhead branch conveyors leading to the truck dock. The coded tote box, leading the order, automatically selects its predetermined loading station and then moves directly into the waiting trailer.

One Day Sooner

Colgate is shipping most orders out of its Kansas City toilet articles warehouse approximately half an operating day faster than it was under the former shipping method, according to Plant Manager R. T. (Ted) La Pier, who told Food Business that most of the time has been picked up in clerical work. La Pier indicated that revisions currently being worked out may increase the savings in time by still another half day.

38 Mail Order House Spends $3-Million to Save Money*

Spiegel expects its new data processor, automated warehouse, and electronic order-writing system to come up with real economies in merchandising handling.

In just a little more than a year, Spiegel, Inc., third largest of the mail order giants, has spent $3-million on equipment and methods to cut its distribution costs. It expects to get its money back in less than four years—and at the same time boost earnings, which have suffered fast-growth pangs.

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With its $3-million, Spiegel first replaced its older data processing equipment with a $1-million IBM 7070 computer. Then, last fall, the company completed a 12-story soft-goods warehouse that includes automatic materials handling methods as part of a unique $500,000 merchandising processing system. And early this month, the first unit of a new $1.5-million electronic order-writing system went into operation.

One Goal

All three steps had one common goal—to save money.

From its $3-million investment, Spiegel expects to save at least $800,000 a year initially, more when similar techniques are applied elsewhere in the company. Spiegel also is counting on reaping some important—though harder to measure—benefits in such areas as improved customer service.

Industrywide

Spiegel's move underscores the deepening interest of mail order houses in new machinery and methods to lower costs to help stay competitive. Sears, Roebuck & Co., Montgomery Ward & Co., Inc., and Aldens, Inc.—other members of the catalogue industry's Big Four—also are working to develop automated systems to pare costs.

Aldens already has turned over to machines some of its clerical chores, and now is trying out a new computer that eventually will take over such jobs as order processing and inventory control.

Sears and Ward, while partially automated, are finding further advances a bit sticky. That's not only because both are so decentralized, but also because both have retail stores to consider as well as catalogue sales. While Spiegel sells only by catalogue and has its operation centralized in Chicago, Sears has 11 mail order plants and 741 retail stores, with 75% of its volume coming from the retail stores.

Sears and Ward both are testing out new systems at regional locations. Eventually, these regional projects will be meshed into national programs for both retail and mail order.

Mixed Reactions

Sears, Ward, and Aldens all have studied Spiegel's new systems, and their reaction has been mixed. They take a wait-and-see attitude toward the warehousing system. "It sounds good," says one spokesman, "but I still have to be convinced."

The industry is paying more attention to Spiegel's data processing system. "The general trend," says Thomas W. Smith, manager of mail order operations for Aldens, "is for clerical costs to increase at a more rapid rate than the handling of customer orders and merchandise."

Industry research and development generally is directed toward reducing as many of these clerical jobs—order writing, inventory control,

billing, accounting—as possible. It's in these areas, catalogue companies agree, that the real savings will come. Spiegel, of course, expects to come up with some real savings in both areas—clerical and merchandising processing.

In the Lead

For the time being, at least, the lead seems to belong to Spiegel.

Its new electronic order-writing system, teamed with the computer, is giving Spiegel an inventory control system that reduces to more manageable dimensions the mountain of clerical work that catalogue selling breeds. With one, relatively unskilled order-writing machine operator now able to perform five separate clerical jobs, the data processing system should trim personnel costs enough to pay for itself within three years, says Budd Sills, vice-president and general operating manager of Spiegel.

Sills predicts that the merchandise processing system will reduce merchandising handling costs by 25%, cut processing time for incoming merchandise in half, and save so much space that it will be just like adding two extra floors to the new 12-story warehouse.

M. J. Spiegel, president and chairman of Spiegel, sees his firm's push into sophisticated automation as part of a "long-range program to automate and mechanize merchandise handling operations wherever practical." To Sills, it represents "eight years of work and a good deal of willingness to plunge into uncharted seas."

Growth Problems

For Spiegel, there were other problems as well.

One such problem stems from Spiegel's own rapid growth—up 225% from a 1947–1949 base, company figures show, against about a 60% gain for the catalogue sales industry as a whole. Sales climbed from under \$100-million 10 years ago to \$268.8-million in 1960. And unlike Sears, Ward, and Aldens, with their retail stores (Aldens operates the Shoppers World Discount Chain), Spiegel's growth has come only from catalogue sales.

Dasol Corp., the New York engineering company that helped Spiegel develop the merchandise processing system, found this growth matched by "an almost proportionate increase in space requirements and handling costs." This, says Dasol, threatened to curtail higher profits that should result from increased volume. Says Allan Harvey, Dasol president: "Space costs money, but it is how you operate and use the space that determines the space cost."

Between 1958 and 1960 alone, Spiegel nearly doubled its work force and its warehouse space. The company now stocks about 120,000 items, receives some 12-million orders and ships 40-million to 50-million items a year. At peak periods, Spiegel's warehouse ships as many as 55,-

000 items per hour. Older manual and tabulating equipment systems were tightly strained.

Dasol found the situation made even more acute by Spiegel's location in a particularly crowded Chicago neighborhood. The operation is compressed into two clusters of warehouses plus some administrative buildings. Dasol and Spiegel's industrial engineering department set out to design an integrated system that would speed the flow of merchandise through the warehouse, automate materials handling jobs that had been done manually, and better use warehouse space.

Space Saver

Under the system, suppliers ship to Spiegel in specified standard-sized cartons whenever possible. These cartons, containing a single color and size of a given item, fit more compactly on warehouse shelves. The job of transferring merchandise from factory racks to open stock bins is eliminated, since the cartons serve as bins.

The materials handling system permits one operator at a control console to move merchandise over moving lines from the first floor and basement receiving areas to the fourth floor merchandise preparation area, then to any spot in the warehouse. The system can handle 240 pallet loads of merchandise an hour.

Eight-Year Job

Spiegel spent eight years in developing its electronic data processing system.

Before the system went into operation, Spiegel used pre-printed sales slips—a separate slip for each item on every order—for order filling, billing, and inventory control. Each slip had to be prepared, pulled from storage racks to complete an order, tallied, and its information entered into the inventory control system.

The automatic order writers, designed by Ferranti-Packard Electric, Ltd., of Canada, do away with those manual steps. The sales slips now are printed on Teletype machines by translating order information prerecorded on coded cards. An adding machine automatically totals up the dollar amount of each order and a perforated tape, cut by the Teletype, feeds inventory data to the computer.

The merchandise processing system still is limited to one warehouse and one type of merchandise—small, softgoods items.

39 Bulk Picking, Electronic Sorting Spell Fast Service for Catalog Customers*

Speed and accuracy are by-words at General Merchandise Co.'s new warehouse-distribution center in Milwaukee. It's a materials handling man's utopia—one of the most completely mechanized mail order houses in the nation—that enables orders to be filled and on their way to the customer *in less than 2½ hours after receipt.*

The massive structure has 546,000 sq. ft. of floor space on one floor, over 13 acres under one roof. It replaces six warehouses formerly occupied by the company. These warehouses, with combined floor space of 608,000 sq. ft., were in a mile-radius in Milwaukee's downtown east side.

Two Warehouse Areas

The new warehouse consists of two general areas of handling and processing: the *A* warehouse and the *W* warehouse. Together, these two areas permit storage and processing of over 20,000 items in the company's line, except those that are "drop shipped" directly from the supplier's warehouse.

A merchandise is generally small (2 sq. ft. maximum), light weight (10 lb. maximum), and of such a nature that it requires re-packaging for shipment. *W* items are generally large, bulky, heavy items which are stored in shipping containers and require only a shipping label before being sent to the customer.

Orders are processed by the bulk-picking method. Instead of picking each order separately, GMC groups hundreds of orders and picks all the items in these batches in stock number sequence, later sorting out the items into individual order pans.

As the picker selects an item, she attaches a coded picking ticket, previously prepared by GMC's computer, that shows which customer's order applies to that particular item. She then places the merchandise on one of four (over-under) takeaway belt conveyors which travel past the picking bins. These conveyors transport the parcels to an ingenious electronic sorter, whose job it is to sort out the thousands of packages

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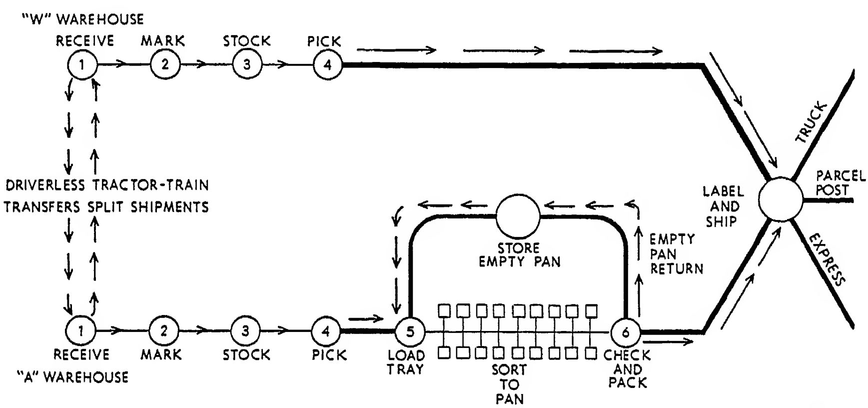
* Reprinted by special permission from *Modern Materials Handling,* January, 1960.

which have been picked during the 15 min. picking period into individual customers' orders.

Packages Sorted Electronically

The electronic sorter developed by Speaker Sortation Systems, Inc., Milwaukee, consists of a series of flat metal trays that travel along a horizontal chain conveyor loop, measuring 375 ft from one end to the other. Each tray is designed to carry one package of *A* merchandise. At a loading point where the belt conveyors from the picking area meet the sorting conveyor, the packages are transferred manually, but very rapidly, from the belt to the sorting tray. Packages, with picking ticket



Flow Diagram shows relationship between two warehouses. Bulky "W" items are picked directly from racks, belt-conveyed to shipping area. Fast-moving, lightweight "A" merchandise is bulk-picked, sorted electronically, and joins "W" orders at shipping.

face up, then pass key-punch operator's station where the four digit order number appearing on the picking ticket is read and keyed into an electronic memory control at the rate of up to 60 trays per minute. The sorter incorporates an error-checking feature, and if the keyed number is illegitimate the package is immediately dumped into a reject bin for reprocessing.

Next, the trays travel past a group of tote pans arranged to assemble the individual customers' orders. As a particular tray reaches the pan assigned to accumulate the articles for one customer, the electronic controller causes the individual tray to tip at that location and discharge the package into the tote pan. In this manner, the individual packages dump into the tote pans and at the end of the period all of the packages for this particular order are in that same tote pan and the order has been assembled. In a typical period of 15 min., 400 orders containing about 4,000 packages will have been picked and sorted into individual tote pans.

During the next 15 min. interval, the tote pans which have been filled

with orders are moved out on conveyors away from the sorting area and into a checking area where each order is carefully checked against the invoice to see that it has been properly filled. At the same time, empty tote pans are moved in to take the place of the filled ones moving out. Meanwhile, the sorting conveyor (whose trays can tilt to either side) is continuing to sort another set of packages into an alternate set of tote pans.

Orders Routed—Pans Returned

After the orders have been checked, they are released and travel on conveyors to the packing area where they are distributed to various packing tables, removed from the tote pans, packed into shipping containers and released to the shipping area. Tote pans are then placed on conveyors to be reused on a future cycle.

As the shipping containers reach the shipping area, they are divided manually on to three sets of conveyors, one for parcel post shipments, one for express shipments, and one for over-the-road truck shipments. At the same time the necessary papers, such as postage, express waybills, etc. are added to the package.

Since much of the merchandise goes out by express, the conveyor line carrying express items runs directly through the shipping department and out into an express trailer spotted at one of the eight loading docks. This eliminates re-handling the express packages in the shipping department. The parcel post items at the present time are dumped into parcel post hampers and trucked to the post office. The over-the-road freight shipments are assembled in the shipping department according to freight line and later transferred into the trucks as they arrive to pick up their shipments.

Warehouse Areas Linked

In the *W* warehouse, the processing of orders is much simpler. The *W* warehouse has its own receiving dock of ten truck stations. Merchandise is palletized as it is unloaded from the trucks, checked over, and furnished with stock numbers for each package. It is then transferred by tractor train or fork truck directly to the pallet racks from which individual packages are removed to pick orders for shipment.

These packages are then placed on belt conveyors which transport them into the same shipping department as the *A* merchandise and again the packages are split on to three take-away systems depending on whether they are to be shipped parcel post, express, or truck freight.

The *W* warehouse stocks approximately 5,000 items, but of these, about 500 items constitute one-third of the volume. These 500 items are stocked on gravity flow racks and picking is done directly off the face of these racks onto take-away belts at a rate more than twice as fast as regular *W* picking onto picking trucks.

Another materials handling function is accomplished by the use of an electronically-guided tractor-trailer train running between the *A* receiving dock, the *W* receiving dock, and the *A* marking area. This tractor train operates along a guided path without manual attention. It is generally concerned with transferring packages which have been received at the wrong dock to the correct location. These shipments often result from a supplier furnishing a mixed shipment consisting of some *A* merchandise and some *W* merchandise, in which case it is most practical to unload the full shipment at one dock and then transfer the shipment to the correct warehouse.

COMPUTER IS 'BRAIN' OF ENTIRE OPERATION

At the heart of General Merchandise Co.'s multimillion dollar mail order processing system is an IBM 650 Ramac system. This giant computing "brain" takes charge of an order almost as soon as it arrives, automatically processes it and schedules it through the warehouse to the customer.

The Ramac remembers *all* the merchandise, since inside the computer, stored on magnetic discs similar to phonograph records, is every single bit of information regarding each of over 20,000 items described and illustrated in the company's mail order catalog.

Knowing the catalog number of a particular item, the computer can find its record and in a fraction of a second can play back information. This information might be the cost of the item, the selling price, description, warehouse location, size and weight, and the number of these items in stock at the distribution center.

The computer works hand-in-hand with the sortation system, assigning each of the items of the customer's order to a particular pan or group of pans on the automatic sortation conveyor in the *A* warehouse. This results in all the items of a particular customer's order coming together in one spot at the same time, and allows all of these items to be packaged and shipped together for delivery to the customer.

PART SIX

ADVERTISING AND PERSONAL SELLING

40 How Is Hershey Doing—without Advertising?*

BY LAWRENCE M. HUGHES†

This question may require several answers, and even more explanations.

Answer No. 1: By the company's own standards of sales and solvency, today's heads of 65-year-old Hershey Chocolate Corp., of Hershey, Pa., find it doing well.

Three years ago Hershey was said to sell one-third of all chocolate and cocoa products consumed in the U.S., and 40% of all such products used around the world. Today, John James Gallagher, chairman, and Samuel Forry Hinkle, president, say, "Our market penetration's greater than ever."

This doesn't prove that chocolate is a "growth industry." In the last six years Hershey's volume rose less than 12.5%, from $148.7 million to $167.3 million. Yet, despite diets and other deterrents, we Americans last year bought $1 billion worth of many types of candy, and, per capita, consumed 18½ pounds of it.

Even of these pounds, Hershey got no lion's share. And in addition to 11 candies (largely milk chocolate and almond bars), Hershey's sales total included five lines of groceries (baking chocolate, cocoa, etc.) and six types of products (from chocolate coatings to cocoa butter) for confectionery, bakery, ice cream and other industries. Foreign markets also contributed—though modestly.

Answer No. 2: In fact, by contrast with some other sweets purveyors, Hershey's sales would seem to be doing badly.

In a pictograph on "The Power of Advertising," August 7, 1959, SM showed that, between 1951 and 1958, Hershey's sales expanded 7%, while sales of another confectioner, American Chicle Co. ($64 million), in 1958 soared 68%. In this period Hershey's per-share earnings climbed 46%, while Chicle's went up 102%.

Both companies sell low-price items; have proportionately low labor costs; but both may be subject to widely varying prices of raw materials.

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† Senior Editor, *Sales Management.*

"The striking difference," SM found, is that "American Chicle aggressively promotes its growing product line by every type of advertising."

In 1959 Hershey's sales gained less than 2%. Chicle's pushed ahead 7%. Though Hershey's 20% earnings growth in 1959 was double Chicle's, its 9% earnings-to-sales ratio still was only two-thirds of Chicle's more than 13%.

Answer No. 3: But along with chocolate products, Hershey also manages to make a lot of money.

Two visits to Chocolatetown, a dozen years apart, spur familiar comparisons—and some sharp contrasts. Between 1947 and 1959, net profit was almost unchanged—around $15 million. Sales rose less than 39%. But this financially strong outfit had become almost spectacularly solvent:

Current ratio of assets to liabilities had soared from 3½-to-1 to nearly 12-to-1—probably a record among larger manufacturers. (Hershey has no long-term debt.)

With retirement of a preferred issue, capital stock outstanding had been cut from $13.3 million to a nominal $4.2 million.

Though total assets in 12 years had expanded only from $59.3 million to $86.7 million (after depreciating "plant" two-thirds in both years), earned surplus trebled—from $25.2 million to $75.7 million.

In their 1959 annual report Gallagher and Hinkle told of increased earnings from $5.25 to $6.35 a share and of boosting dividends from $3.15 to $3.40. Over the years, Gallagher tells SM, Hershey has "declared" an average 60%. (The company failed to make a profit only in one year.)

Some 2.4 million shares are outstanding. Listed on the Big Board, Hershey stays steady around 81.

So benefits the cause of education. Though Hershey Chocolate has more than 8,000 stockholders, 70% of the shares are owned, through Hershey Trust Co., by the nearby Milton Hershey School for 1,200 orphan boys. The school is now observing its 50th year.

(Philanthropist Milton Snavely Hershey—who was not an orphan—did not worry about orphan girls: "Relatives or outsiders will take care of them. Girls are useful in the house. Boys, however, are looked upon as somewhat of a nuisance.")

Twelve years ago the school was "worth" $60 million. Today, with the combined value of all outstanding shares at $189.6 million, the school owns about $133 million of Hershey Chocolate stock—or $111,000 per orphan boy.

This may not be conventional "statementing": But for the boys' sake, add the earned surplus to the "value" of the shares, and then subtract the $6.4 million current liabilities. (Federal income tax has been provided

for.) The chocolate corporation comes out with some $259 million, and the school's stake in it is $181 million—or $151,000 per boy.

Answer No. 4: Compare Hershey's trends with those of all major manufacturers in the five years that Fortune has ranked the 500 largest:

Hershey started at No. 197 in both sales and profits. By 1958 (the list for 1959 is not yet available) it had dropped to No. 245 in sales, but had risen to No. 148 in profits.

And in per cent of profit to invested capital, in 1948 Hershey ranked 46th among all 500. It was far above such food giants as Swift, Armour, National Dairy, Borden, General Mills, Ralston Purina, Pillsbury and Campbell Soup—as well as fellow confectioner Wm. Wrigley Jr. It nosed out such strong companies as General Foods, Corn Products, Foremost Dairies.

In fact, among all 500, the only food producers to give their owners a higher return were these seven: American Home Products (partly in food) was No. 1; Pepsi-Cola (a light "food"), No. 10; Kellogg, No. 15; American Chicle, No. 20. Nos. 37 through 39 were Gerber Products, Minute Maid, Campbell Taggart Bakeries.

Answer No. 5: Hershey built solidly on a philosophy and a way of life.

Milton Hershey made his people prosperous. Some veterans, benefiting from 37 years of profit-sharing and more recent stock options (at $54 or $55 a share) are rich. Since 1905 employees have received bonuses, and then profit-sharing.

For his people, founder Hershey erected an "ideal" town in the cornfields 13 miles east of Harrisburg. To them and the growing annual horde of visitors he gave a garden of 94,000 rose bushes; a Community Building with theaters, library, dining room, games, etc. He built an amusement park, big swimming pool, a sports arena for 8,000 and a stadium for 15,000. He donated four golf courses, the Hershey Hotel, Cocoa Inn, etc.

He gave jobs, not only in the chocolate factory, but with Hershey Estates, Hershey Department Store, Hershey Trust Co., Hershey Lumber Products, and other businesses. And by buying a quarter-billion pounds of milk annually, his chocolate company kept the cows and farmers contented for 75 miles around.

The view of rolling hillsides was lovely. But some could see only planned paternalism. Some called Hershey, Pa., not merely a company town but a one-man town. (On the opening of the Hershey YMCA a veteran associate quoted what Artemus Ward said about Brigham Young's wives: "It is too much, too much!")

In late 1933 Fortune writers came to town and, without talking to Milton Hershey, did a piece for the January 1934 issue called "Mr.

Hershey Gives Away His Fortune." The Founder felt he emerged from it "not much better than a robber baron." He disliked having the town's aroma labeled "chocolate stink," and he seemed especially irked at the line under a picture of Hotel Hershey: "A Pennsylvania Dutch idea of Moorish magnificence."

Answer No. 6: For a "non-advertiser," Hershey Chocolate has managed pretty well to spread the word of its policies and products.

To three generations Hershey has meant chocolate. George Eastman tried to make Kodak mean camera. Henry Ford I sought to stand for gas-buggying. But later rivals dimmed their dominant images.

American Chicle and others can testify to the fact that Wrigley no longer is a sole synonym for gum. And though Campbell may have two-thirds of the whole canned soup market, such a rival as Heinz keeps Campbell from owning a generic term.

Today, with Hershey, only a trade name like Kleenex may compare.

And yet this product which Milton Hershey managed to "monopolize" has been a favorite for four centuries.

Spanish explorer Hernando Cortez learned about cacahuatl from the Aztec Indians. Emperor Montezuma himself may have been the first to serve a white man a beverage called chocolate, from the seeds of the cacao bean. Swedish botanist Linnaeus gave chocolate its official Greek name, Theobroma Cacao, or food of the gods. Europeans were brewing the beverage for centuries. Walter Baker's La Belle Chocolatière was serving it to American Revolutionists more than 100 years before Swiss-ancestored Hershey of Lancaster, Pa., went to Germany to learn chocolate-making, sold his caramel business for $1 million, set out to chocolatize the U.S.

The cows of Amish, Mennonite, Brethren and other Pennsylvania farmers came through with the milk. For sugar, Milton Hershey built a 60,000-acre empire in Cuba, a town named Hershey there, and a 75-mile railroad. (With Fidel Castro acting up, Gallagher and Hinkle assure stockholders that the chocolate company itself owns no properties in Cuba. Also, "In view of the world supply and producing capacity, we do not foresee any difficulty in procuring our sugar requirements.")

Answer No. 7: In his own way, Milton Hershey was both an advertiser and a vigorous propagandist.

His personal and prolific Boswell was a nephew, Joseph Richard Snavely, who also served for more than four decades as Hershey's printing superintendent. Snavely wrote (and set) "Meet Mr. Hershey," "Milton S. Hershey, Builder" and "The Hershey Story." But probably his crowning work is a profusely illustrated, 560-page book published in 1957: "An Intimate Story of M. S. Hershey."

The Founder saw to it early that Hershey, Pa., had a newspaper, The

Hershey Press. He planned a magazine, The Hershey Idea, to be devoted not only to the "usual literary, economic, political, farming and general topics," but "to advocate the square deal in business alike for the rich and poor. . . ." In 1920 he was strongly tempted to buy the old humor magazine, Life. But both of these plans died aborning.

Hershey was a showman. The factory's tenth birthday drew 100,000 people. To Hershey, Pa., he tried to attract the 1916 annual convention of the Associated Advertising Clubs. In October 1953, President Eisenhower was persuaded to celebrate his 63rd birthday at Hershey. Ike and Mamie box-lunched with the crowd in Hershey Stadium.

The chocolate company's first advertising material was a panoramic window display of "Hershey's Milk Chocolate—Made on the Farm." A contemporary chronicler reports that "In the blue sky above this bucolic scene were the words: 'The Home of Hershey's Cocoa and Milk Chocolate.' "

A direct mail contest among consumers in 1904 offered a $100 prize for a name for the new chocolate town. The winner was Hershekoka. Mrs. Hershey did not like it. ("Imagine," said she, "signing in at a hotel as Mr. and Mrs. M. S. Hershey of Hershekoka, Pa.!") But her husband used it when traveling alone. It would have appeared big in shrubbery back of the factory, had not the gardener made a misprint. This enduring sign says simply, "Hershey Cocoa."

For 56 years two tall smokestacks have proclaimed, "*Hershey*." But later the Founder vetoed a plan to put a big electric sign on the factory: It would be "foolish . . . to tell people that they're in Hershey and that we make chocolate, which they already know."

The Founder admired Walter Baker's La Belle Chocolatière. For a time he was tempted to counter in a trademark with a photograph of his wife (nee Catherine Sweeney, whom he married in St. Patrick's Cathedral while selling his Crystal A caramels in New York). But finally he settled for a naked child emerging from a cacao bean with a steaming cup of chocolate in one hand. On letterheads, on the doorknobs at headquarters, and otherwise, the child persists.

Hershey Chocolate was an early and fairly consistent user of promotional films. In the 1930's a 3-reel sound picture, "The Gift of Montezuma," was shown in schools around the country. (Among the record 206,000 people who went through the factory in 1959 were a lot of ACES. Hershey works with Americans for the Competitive Enterprise System in arranging educational tours for high school students.)

Milton Hershey's idea of "advertising" was to buy a $10,000 bull and name it Chocolate Segis Pontiac Alcarta. The mere listing of Chocolate's pedigree took two pages in the local newspaper, guaranteed notice.

One of his few consistent campaigns, in a more established medium, was in the New York subways. Former transportation advertising mag-

nate Barron Collier insisted that, if Hershey wanted to sell chocolate bars on subway newsstands, he would have to buy 3-sheet posters in subway stations for them.

But when a "smart-aleck solicitor" of a New York newspaper with one million circulation (probably the News) promised him "astounding results" from a full-page ad, Milton Hershey replied: "We print three to four million wrappers every day. Suppose you print a page ad for me each week in your publication, and I'll print an ad for you—every week—on my wrappers.

"That peddler," said he, "stopped coming back."

Answer No. 8: Hershey makes penetration a promotional force.

"There's not much mystery about our success," says John J. Gallagher. "All we do is make a good product, sell it at the lowest possible price, and do some promotional work with retailers and distributors."

But as one who first started to sell Hershey's wares in 1911, Chairman Gallagher knows the power of its penetration.

Milton Hershey set out to get and hold the best possible distributors—and got 10,000 of them. The distributors in turn sold 600,000 retailers. Though in recent decades the super market trend has reduced the number of individual stores, vending machines probably have increased Hershey's total outlets to more than one million.

In fact, though Hersheyites do not reveal it, their penetration in the U.S. alone may be as broad and deep as Coca-Cola's "optimum availability" of 1.8 million outlets.

At Hershey, Pa., work 3,750 of the chocolate company's 4,500 employees. The 750 others include, in Sales, 14 division managers, 73 district managers and an estimated 150 field salesmen and merchandisers. ("We don't want to tell competitors," says Gallagher, "how many salesmen we have.") Other employees are in 27 Hershey warehouses, spread across the map from Cambridge, Mass., to Los Angeles, and from Jacksonville, Fla., to Seattle. In the last decade the number of warehouses has doubled.

Hershey's penetration and solid salesmanship has made the going tough both for established and would-be competitors. Some of them sought to capitalize on the Hershey name. Six distant relatives of the Founder formed the Hershey Brothers Co. in nearby Harrisburg, but were forced out by a lawsuit.

And some lured the Founder's people. When Prohibition interrupted the flow of Schlitz beer, Milwaukee's wealthy Uihlein family launched the Eline Chocolate Co. Among others, they got Hershey's sales manager, P. N. Kasson, to join them. But though the new Eline company spent the then-whopping figure of $1 million a year for advertising, the enterprise did not get off the ground.

Fred Pugh was chosen Hershey's sales manager. His assistant sm was

J. J. Gallagher, who first joined the company in 1911 and who had, the Founder said, "been doing an outstanding job selling great quantities in New York."

Gallagher was assistant sales manager from 1920 to 1947, when he became general sales manager. Even after being elected board chairman (succeeding Percy Alexander Staples), Gallagher did not relinquish the sales manager's title. Not until last January 1 did E. F. Aldous, formerly western sales manager, succeed to this post.

Answer No. 9: Hershey has concentrated on cacao.

The product line gradually lengthens. But until now the successful members of it have all sprung from the bean. Two new consumer products in 1959 were chocolate-covered, candy-coated almonds and glass-packaged, vitamin-fortified, chocolate-flavored syrup. Other latecomers are mint chocolate, Hershey-ets and Hershey's instant cocoa mix. Gallagher and Hinkle tell stockholders that "research and development is being aggressively followed."

In World War II Hershey developed the emergency chocolate ration bar for our armed forces. For medicinal purposes, it rescued theobromine from cacao shells. While making parts for antiaircraft guns in one part of the plant, it was still processing daily one million pounds of chocolate, 100,000 gallons of milk and other ingredients. And to meet the wartime shortages of fats, it introduced Victory Whip ice cream.

At Hershey, Pa.'s, hostelries, you wash with Hershey soap. Milton Hershey found that the formerly wasted cacao shells could be induced to yield not only cocoa butter but also a cleansing agent. The chocolate company makes quite a business out of the butter. But the soap (one of the few Hershey products ever intensively advertised) is in another branch of the empire.

One diversionary effort was Easy Chew chewing gum, featuring six sticks to the package. . . . And a much different picture might have emerged if, in 1929, the Founder had not turned down a proposed merger with Colgate, Palmolive and Kraft.

Answer No. 10: Hershey is getting geared for the future.

When OPA price controls were removed after World War II, cacao beans shot up from 8 to 70 cents a pound. Hershey now pays around 27 cents for them. (But President Hinkle admits, "We're still worried about our sources.")

Tomorrow's market penetration, however, should not rest on cacao caprices—nor on policies that paid off three or four decades ago. Gradually, Hershey Chocolate Corp. emerges from the shadow of the Founder. It has, in fact, become a multi-man show.

Milton Hershey finally retired in 1944 (at the age of 87), and turned over the reins to P. A. Staples, who had run the Cuban-sugar province of

the empire. On the Founder's death, the next year, Staples wrote a "table of organization," outlining each key individual's functions. An 11-man board of managers coordinated all the enterprises.

Hershey Chocolate still has only eight directors—four of whom are among the five corporate officers. (Another director is Hinkle's assistant, and one is with Hershey Trust Co.)

Hersheyites call their sales operation "conservative." ("Turnover of salesmen is very small," says Gallagher. "Our average man has been with us 25 years.")

Sales controls today are more centralized. Though division managers hire, train and guide the men in the field, each salesman now reports, every day, direct to the home office.

Under General Sales Manager Aldous are eastern and western sales managers L. H. Harkness and M. A. Cameron, and Marketing Manager J. L Stahl, Jr. (There is no advertising director.)

Hershey held its one and only national sales meeting back in 1921. But division people meet frequently, and field men are brought to the home office informally in groups of 10 or 12 at a time.

Size of the force has changed little in the last decade. The men now do more work with fewer, but larger, retailers. They are in four groups: (1) retail men, who keep in close contact with big stores, helping on displays, etc.; (2) "combination" men serving both retailers and distributors, and (3) and (4) district and division managers who cover still-bigger customers in wider areas. Gallagher emphasizes that "We never think competitively—but we do sell Hershey to the hilt."

Salesmen work on straight salary but receive insurance, pensions and other benefits. A major "benefit," for many of them, is "tenure."

Though the Pennsylvania Dutch in and around the town are an independent and somewhat insulated breed (who still call visitors from Ohio and Virginia "foreigners"), the chocolate company learns increasingly from the experience of others.

Chairman Gallagher has been a loyal Sales Management reader for 25 years. "Other people around here read it, too," he says. "We get ideas from it. . . . But I think you carry too much stuff on big companies." We did not get into a definition of "bigness."

Hershey Chocolate is a member of Grocery Manufacturers of America and of retail associations in such fields as grocery, drug and tobacco. Prior to their annual shindigs, Hershey will remind the retailers of its wares, with a page ad in their publications. (One hundred per cent of the company's output is in its own brands.)

"We also do display work and some cooperative advertising with retailers," Gallagher points out. "We're careful to offer co-op to all retailers. . . . But this part of our advertising is not expanding."

Not long ago word got out that Batten, Barton, Durstine & Osborn had, in effect, converged on Hershey. Gallagher admits that "BBDO

made a presentation . . . but they asked to come." No agency selection is yet in sight.

Hershey's heads have long said, "Our trade doesn't demand large-scale advertising. Our products do nicely without it."

"But," Gallagher adds, "we also have our eye on the consumer—all the time." Though some latter-day consumers may not realize it, the old company continues to take particular pains to give them quality and value. While competitors may have "stretched" their products with less chocolate and more sugar, and more chemicals, Hershey's formulas do not change. Prices, too, are the same—though weight varies with costs of ingredients. Currently, Hershey is adding weight to candy bars, again.

Milton Hershey did not live to see the postwar era. And these startling sixties are something else again. Though there is not yet a "new" Hershey, every year sees a bit less of the old. Younger men are moving up.

For a half-century, the Founder's multifarious family persisted on the board and elsewhere in the empire. But Gallagher and Hinkle emphasize that "Today, any able person can rise in the company."

Veteran Hershey salesman Gallagher urged: "Please make it clear that we have no quarrel with advertising." Privately, he thinks "The time will come when Hershey becomes an advertiser." It would go in for product advertising, and probably would first use it to get new products accepted faster across the board.

But, even privately, Gallagher prefers not to talk about the possibilities of "corporate image" advertising. He calls "image" a "bad word." And in Hershey's case it may just be syruping the lily, anyhow.

41

What Is Marion Harper Saying?*

BY SPENCER KLAW

Some Harperisms, like "co-creativity" and "event loops," are not too easily grasped. But Harper impresses a lot of advertisers, and he has made McCann-Erickson the second-largest agency in the world.

Marion Harper Jr., a large, high-domed, forty-four-year-old New Yorker who is chairman and president of McCann-Erickson,

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Inc., is an advertising man of a new and formidable type. Harper's stock in trade is scientific communication, and the image he projects, to use a handy trade expression, is that of a man who has transcended old-fashioned trial-and-error methods and put the art of commercial persuasion on something like a scientific footing. Furthermore, Harper rejects as obsolete the idea that advertising men should stick to advertising. He likes to describe McCann-Erickson as a "marketing-oriented communications service for advertisers." By this he means that McCann-Erickson, in addition to writing a client's advertising, is prepared to help him repackage, rename, and even redesign his products, change his price structure, get more shelf space in the supermarkets, write inspirational literature for his salesmen, and improve his corporate personality. It is Harper's aspiration, in short, to be the blender of what he often refers to as "the total marketing mix."

Harper has, of course, no exclusive right to the role of scientific communicator and all-around marketer. Most advertising men these days bombard clients with research, and it is a poor agency that can't afford at least one house psychologist. Moreover, in the age of self-service, when so many manufacturers have to coordinate their advertising campaigns with coupon deals, store promotions, product publicity, and the like, advertising agencies have been forced to interest themselves, willy-nilly, in all facets of marketing.

But Harper did a lot to create the role of the total marketer, and he plays it with matchless authority and style. When he has lunch with a client, or someone he would like as a client, he is apt to construct a conversational launching pad of unchallengeable truths, and then whoosh off into a philosophical and psychological stratosphere where few if any of his competitors are equipped to follow him. "Marion can talk the client's own language," a former associate says. "First he talks about accountability and control and system of organization. This is very soothing to a lot of executives. It eases their tensions and fears. They listen to Marion and they think, 'By God, here's a fellow who sees things our way.' *Then* he gives them a good whiff of psychology."

Harper might begin, for instance, by noting that advertising's real function is to build equity for a company's stockholders. Next, he might point out that McCann doesn't simply do clever advertising, but tries to utilize every atom of communication in the total marketing environment. He might go on to discuss a couple of McCann-Erickson house specialties: the Relative Sales Conviction Test, say, and the Purchase Proposition. Then, with his conversational rockets developing full thrust, he might turn to an analysis of the coming Information Revolution (lots more communication between corporations and their publics), come out boldly for "holistic" techniques in corporate public relations (he prefers them to segmented techniques), explain how men and situations are linked by "event loops," and coast into orbit with an

account of the wonders of "co-creativity," a form of super-brainstorming that Harper has been experimenting with lately.

The Book on the Bicycle

To keep his idea inventory at a high level, Harper leads a life engineered for maximum cerebration. When he gets up in the morning, for example, he pedals the equivalent of one to four miles on a stationary bicycle, and while pedaling improves his mind by reading a book propped up on the handle bars. Moreover, to free his mind for higher things, Harper has tried to eliminate the element of conscious choice from much of his daily routine. Thus he dresses unconsciously, automatically selecting a suit whose color matches his mood—brown when he feels cheerful, gray when things look terrible. "Sometimes I don't really find out how I feel until I notice what I have on," he explained recently.

Harper's unremitting mental application has resulted in the invention of some advertising techniques that really work. It also made him president of McCann-Erickson in 1948, when he was only thirty-two. At the time, McCann's billings (roughly, the volume of advertising it handled) totaled $54 million, and it ranked fifth in size among advertising agencies. Last year billings were close to $330 million, and McCann-Erickson, with offices in twenty-two countries, did more business than any other agency except J. Walter Thompson. (In the U.S., in continental Europe, and in Latin America, McCann-Erickson is ahead of Thompson, but Thompson still has a big edge in England.) McCann-Erickson's major clients, a number of which were personally wooed by Harper, include Bulova, Esso, California Packing, Liggett & Myers, Nestlé, National Biscuit, Westinghouse, Buick, and Coca-Cola. Indeed, as a business getter, Harper is perhaps the most successful advertising man of his generation.

Harper's success owes much to his early realization that advertisers are eternally eager for assurance that they are spending their money in the right way—and to his discovery that science can often help allay anxieties on this score. Harper himself, soon after graduating from Yale with an A.B. in psychology, devised a method for predicting with startling accuracy just how many people will notice and read a given magazine advertisement. To encourage similar inventions, he has established a department at McCann-Erickson called the Institute of Communications Research. Its mission was set forth last year in a formal charter solemnly proclaiming that the institute's function is to "formulate better systems . . . practices, and principles through the courageous study and research required to change the fundamental knowledge of communications beyond existing frontiers."

Among the projects under way at the institute is a study of how people's eyes move when they look at an ad or a commercial. (For instance, do they watch Betty Furness or the refrigerator?) The institute

is also attempting to predict the relative sales appeal of different slogans by flashing them briefly on a screen with a device called a tachistoscope, and seeing which slogans people remember. Harper himself is especially enthusiastic about a study that is being made of pupil dilation. It stems from the discovery by a University of Chicago psychologist, now working under a grant from McCann-Erickson, that when people look at a picture that interests them, the pupils of their eyes dilate in proportion to their interest. Further study of this phenomenon is expected to help find better ways of pretesting advertisements.

Harper is also fascinated with schemes of a more or less scientific kind for stepping up the creative voltage of his associates. At the moment, he is greatly excited about his experiment in what he calls co-creativity. To carry it out, he launched last year a satellite of McCann-Erickson bearing the no-nonsense name of Jack Tinker & Partners. Tinker was formerly in charge of creative services (art and copy) at McCann, and his partners are three other high-salaried McCann-Erickson veterans, among them Dr. Herta Herzog, a leading authority on motivation research. Harper has freed them of administrative duties, and set them up in an elegantly appointed duplex apartment in the Dorset Hotel in midtown Manhattan. Their exact mission is hard for many to grasp, but seems simple enough to Harper. "We focus a lot of attention on the problem of the individual creator at McCann-Erickson," he said recently. "But there's this whole new dimension of co-creativity. What happens when you blend different skills at a very high level? We're conducting an experiment to learn whether through co-creativity you can produce better, neater, brighter, hotter, more creatively . . ."

So far, much of the partners' co-creativity has been channeled into solving specific problems of McCann-Erickson clients. (Recently, for instance, they helped think up a name—the Accutron—for an electronic watch developed by Bulova.) But Harper has bigger things in mind for the group. For example, he is convinced that existing advertising media are going to be overloaded when the Information Revolution really gets rolling, and he has asked Tinker & Partners to give some thought to devising new media. One possibility, Harper suggests cryptically, might be some sort of word-of-mouth system for advertising goods and services.

Harper has also given the group the job of figuring out what to do about the term "corporate image," which he thinks is coming to have an undesirably manipulative ring. A few weeks ago Harper spent a morning exploring the subject with the partners. The session was held in their two-story living room, which has a fireplace and a handsome bar of French Provincial design. The discussion, like the large paintings on the walls of the room, was abstract. ("The corporation has to be seen in the context of its being," Harper said at one point, chopping the air with the edge of his hand. "You have to look for the inward truth.") Harper

and the partners agreed that McCann-Erickson should stop talking about corporate image and start talking about either corporate "identity" or corporate "commitment." In the end, "commitment" got the nod. "Now let's see if we can get a philosophical base for this," Harper said as he departed for lunch with a client, "and then we can try to bring it into operational reality."

A Thought Block in the Humanivac

Another current enthusiasm of Harper's in the creativity line is a device he calls the Humanivac. The Humanivac, which has not yet been brought into operational reality, is described by Harper as a human problem-solving machine. Its work will be done in two specially equipped rooms at McCann-Erickson's headquarters on Lexington Avenue at Forty-sixth Street. The rooms are on the thirty-first floor of the building, in an area designated as the Marketing Communications Workshop, and each room has been equipped with a one-way window and wired for sound so that a person standing outside can see and hear without being seen.

To start up the Humanivac, Harper explained not long ago, a group of bright young men will be put in one of the rooms and set to work on a problem—for example, Harper said, the low morale of stewardesses on the XYZ airline. When the group runs into what Harper called a "thought block," it will divide, like an amoeba, into two subgroups, one in each room. But the group's leader, by staying outside and shuttling from one one-way window to the other, will be able to keep tabs on both groups. (If it should seem advisable, Harper pointed out, the leader may arrange to have one subgroup listen in on the other.) The leader will have the help of official listeners, stationed outside the Humanivac chambers, who will tell him when factual errors seem to be creeping into the discussions. Harper anticipates that the subgroups will spend a lot of time "going on the silent level"—that is, listening to a playback on tape of what they have been saying in order to see where they went astray. Harper hopes the Humanivac will reduce by as much as 50 per cent the time needed to solve problems. "There's a new challenge to creativity in this," he concluded. "This may well be 1962's version of a conference room."

Actually, a sort of rudimentary Humanivac is already operational at McCann. Harper is a great believer in centralized planning, and before a proposed advertising campaign is shown to a client it is worked over by no fewer than three separate high-level bodies: a Marketing Plans Board, a Creative Plans Board, and a Plans Review Board. These groups all meet in conference rooms that are equipped, like the Humanivac chambers, with sound systems and one-way windows, so that account executives, trainees, and visitors with security clearance can see and hear the reviewers reviewing.

Harper has dramatized his commitment to total marketing by applying what he calls the Affiliate Principle. McCann-Erickson, having abandoned the role of a mere advertising agency, is today a cluster of semi-autonomous affiliates specializing in different phases of marketing. Two of these affiliates *are* advertising agencies, however. One, McCann-Erickson Advertising (U.S.A.), handles the bulk of the domestic advertising business. The other is McCann-Marschalk, a completely separate agency—its offices are in another building—that bills around $30 million a year and that Harper has described as an agency for clients who like a comparatively small and cozy shop. In addition, there are three major affiliates, grouped together under the impressive title of Communications Affiliates, Inc., that are not in the advertising business at all. One specializes in merchandising and sales promotion, one in consumer and market research, and one in public relations.

This organizational scheme strikes many people in the advertising business as silly. "There's a question whether Marion was right or wrong in organizing his agency along such pompous lines," the president of a rival agency said recently. "Some people, of whom I am one, laugh at it." A number of Harper's competitors see the Affiliate Principle simply as a device for giving unsophisticated clients the impression that McCann-Erickson is uniquely equipped to cope with their marketing problems. Even some of Harper's warmest admirers dismiss his passion for affiliates as a harmless hobby. "McCann gives us good service," says the marketing director of one of McCann-Erickson's biggest clients. "Marion has all those affiliates, and jiggles them around, but we don't care."

It is quite possible, however, that the last laugh will be Harper's. He argues that public-relations and merchandising and research people tend to be treated as second-class citizens within advertising agencies, and that by setting up what amount to separate companies in these fields McCann can attract better people and offer clients better service. Moreover, as some of Harper's competitors note with envy, the affiliate structure may make it easier for Harper to bill clients for services—certain kinds of research, for example—that often have to be thrown in free, i.e., as part of what an agency does for the standard 15 per cent media commission. And finally, McCann-Erickson can now go after clients in, say, the public-relations field, whose advertising is handled by another agency. Harper likes to point out that McCann's public-relations arm is now the third-largest public-relations firm in the U.S., and that its research affiliate, Marplan (for Market Planning), is one of the three or four largest firms in the field of market and consumer research.

"Oh, we pose a major problem to the industry," Harper said recently. "If the Affiliate Principle works, you reduce the conventional advertising agency to a secular, specialized function." (The function, that is, of simply churning out advertising copy, while others—e.g., McCann-

Erickson—reap the rewards of formulating high marketing strategy.) Harper went on to say that he looks forward to a time not too far off when McCann-Erickson will be a billion-dollar-a-year communications business, and added that he has already asked Charles Luckman, the architect, to start thinking about a suitable headquarters for such an enterprise. "We threaten our competitors with obsolescence," he said happily. "As a matter of fact I'm kind of worried about them."

Cruising the Depths with Harper

Harper has an appetite for work that is a legend in the advertising business. Time and again he has shown his ability to stay up for thirty-six or forty-eight hours whipping a new business presentation into shape, and then to show up at the office of the prospective client, after an hour's nap and a shower, as clear-eyed and bouncy as if he had just had a three-month vacation. Harper seems to be vastly stimulated by impossible deadlines, and to assume, not always correctly, that people who work for him are similarly constituted. "Marion's like of those deep-sea fish that can function only under enormous pressure," a McCann-Erickson alumnus said recently. "He creates his own deep sea."

Lately, Harper has been cutting down a bit on his work load, but he still likes to put in an eleven or twelve-hour working day. His day begins in Irvington, New York, some twenty miles north of his office, where he lives with his wife and four children in a fourteen-room Norman-style house. He usually gets up around half past seven, and after bicycling, dressing, and breakfasting, he drives himself to New York in his 1961 Buick convertible. By nine-thirty or ten, he is usually in his office, a large, chastely furnished room where he works at a small, circular desk. He eats a spare and liquorless midday meal, saving himself the problem of choice by invariably ordering hamburger, stewed tomatoes, and tea—and counts that lunch a loss when he doesn't eat with a client or prospective client.

During regular office hours, indeed, much of Harper's time is spent talking to clients; often it is only when the clients have gone home that he really has time to talk with associates. Beginning at five-thirty or so, he is apt to preside over a conference, or series of conferences, that may run on until nine or ten o'clock as Harper, who thinks faster as the evening wears on, warms to his work. When he knocks off he may have dinner in town with one of his associates, and then drive back to Irvington for an hour or so of reading (in a chair, not on the bicycle) before going to bed.

How to Read Backward

There is nothing relaxing about Harper's reading. He reads to get useful ideas, and he invades books like a marauder bent on plunder. His usual tactic is to start with the last chapter of a book, and if he

likes that to read backward toward the middle; if he still likes the book when he gets to the middle, he starts at the beginning and reads forward. He reads at breakneck speed, underlining passages and scribbling notes in the margins, in the back, and on wads of yellow paper. He likes to get together twenty or thirty books on related subjects and to invade them more or less simultaneously. Recently Harper has been concerned with the question, as he phrases it, "How can man achieve a new plateau of performance?" Among the books he has been attacking in search of an answer are *Human Potentialities* by Gardner Murphy, *The Art of Loving* by Erich Fromm, *Decision Making* by Donald Davidson and Patrick Suppes, and *The Death and Rebirth of Psychology* by Ira Progoff.

Like many successful businessmen, Harper has put money into some sideline enterprises. He owns a resort hotel at Montauk on the eastern tip of Long Island; a roadside candy factory and store, the Candy Carousel, in Elkton, Maryland; and a Washington, D.C., publishing company that puts out the Whaley-Eaton newsletter. His biggest venture is in cattle: at Staunton, Virginia, he leases a 1,500-acre establishment, Sugar Loaf Farm, where he has a herd of some 800 Black Angus.

But these enterprises take up little of his time, and Harper's preoccupation with being a communicator is very nearly total. Once, on the theory that every man should have a hobby, he did try chemistry. He bought a toy chemistry set, played with it all one Sunday, and then decided chemistry was a bore and gave the set to a neighbor's child. Recently he has taken up photography. But he seems to have done so less for fun than for self-improvement. He is not interested in the pictures he takes, but only in teaching himself (he says) to see things around him in new (and perhaps professionally useful) ways.

The nearest thing he has to a hobby is listening to jazz. He pays an occasional visit to the Village Vanguard, a Greenwich Village nightclub, or to the Five Spot, a jazz emporium not far from the Bowery, and he has a large collection of jazz records. With his characteristic zeal for order and system, he has divided his collection into two categories. One consists of recordings that deserve to be listened to. ("You are one with Art Tatum, or else you shouldn't play the record," Harper says.) In the other category are records that Harper classifies as "acceptable noise" (Peggy Lee singing, for example) and that he can play even when he is reading, say, *The Death and Rebirth of Psychology*.

Last summer Harper took his first real vacation in twenty-two years. He spent a month at home in Irvington, where he played with his children, who range in age from nine to two, tried tennis for the first time since he was in his early twenties, and hit some golf balls at a driving range.

But Harper did not take a vacation simply to loaf. He also wanted "to get new perspectives, to think about new ways of doing things," and he spent a lot of time in Irvington thinking and writing. He drafted

a ten-page statement setting forth the things he believes in and bearing the title "The Seeker: A Personal Testament for the Twentieth-Century American." He also worked up some ideas for a book to be called *How To Get Your Kid to Stretch His Mind*, and he put down, in outline form, what he calls "Some Guides to Clear Thinking in Business." This document contains such Harperian sentences as "Multi-valued orientation is a stance that will focus your attention on *actions* rather than *words*," and "To protect yourself against over-generalization, fondle enough of the building blocks so that your insight into the problem is personal."

Bravura in the Board Room

Although Harper does not slap backs, tell funny stories, or take clients for yacht rides—he has no yacht, and seldom sees clients outside of office hours—he has few peers among advertising men in the art of winning clients. One reason is Harper's comforting insistence that the purpose of advertising is to sell goods, not to win critical plaudits. As he put it in a recent speech, it is time for advertising men to stop "skipping around a Maypole of creativity" and to concentrate on producing advertising that is not just creative but *effective*. Harper, who can on occasion be as down to earth as the next fellow, added sensibly, "Advertisers are not spending billions to decorate media. Their messages are not meant as ornaments."

Harper is also a master of the new-business solicitation, and McCann's formal presentations are reputed to be among the most elaborate in the business. In 1955, for example, when McCann was getting ready to make a pitch for Coca-Cola's domestic advertising business, work was begun months in advance. A special product group, which Harper met with twice a week, tunneled through mountains of research, and in the final days of preparation a team of writers and artists worked around the clock under Harper's direction. The presentation was made in the Coca-Cola board room, where four McCann-Erickson executives, with salaries totaling at least $200,000 a year, crouched behind a large screen—"like little mice," a witness recalls—and operated a battery of slide and film projectors. Harper acted as master of ceremonies, noting regretfully after two hours or so that McCann-Erickson had been obliged, in the interest of brevity, to leave out a number of ideas the agency felt were relevant to Coca-Cola's problems. The enthralled Coca-Cola executives thereupon invited Harper to come back the next week for a second session, and a few weeks later McCann was handed an account worth at least $15 million a year in billings—the largest account that had ever been switched from one agency to another.

Harper cannot always prepare himself as thoroughly as he did for the Coca-Cola presentation. But he is a very quick study, and after racing through a memorandum setting forth McCann's plans for dealing with the

problems of, say, a garter manufacturer, he is able to discuss those problems with the seeming authority of a man who has spent the best years of his life in the garter business.

Keeping clients is as important as winning them, and Harper is expert at this too. He makes a point of knowing an impressive amount about the business of McCann's clients. Furthermore, he is prepared to overwhelm a skittish client with service. At lunch one day, for instance, a client told Harper he was wondering if he should change the name of one of his products. Harper went back to the office and organized an all-night attack on the problem. By nine the next morning the client had an impressively fat report analyzing his dilemma in detail, and illuminating it with the experience of other companies that had changed the name of a product.

Harper also overwhelms clients with manpower. "If we wanted a genius, Marion would find us three geniuses," an executive of a client company said recently. Harper likes to collect executives who have held important jobs in fields allied to the agency business, and to keep one or two in reserve. Then, if a client is unhappy, Harper can cheer him up not just by putting a new team to work on his account, but by installing as captain of the new team a man who has been, say, the executive vice president of a television network or the marketing director of a big corporation.

The Water Boy from Yale

Harper's early life offers only a few hints of the precocity and drive that were to distinguish his later career. He was born in 1916 in Oklahoma City, where his father was the advertising director of the daily *Oklahoman.* His parents were separated when he was five, and for the next ten years he was raised by his mother, a strong-minded woman who took in roomers, wrote editorials for a paper called the *Oklahoma Statesman,* and believed that a growing boy should study the Bible, earn money, and become a good public speaker. Marion measured up admirably to her standards. He was president of his Sunday-school class at St. Luke's Methodist Church, and sold newspapers, magazines, and soda pop. He made his debut as a public speaker at the age of ten, earnestly advising a state convention of the United Daughters of the Confederacy that it was time for North and South to bury the hatchet.

When he was fifteen, Harper joined his father, who had moved to New York. The elder Harper, now in semiretirement, was at the time a vice president of General Foods, and soon afterward he became half owner of the Blackman advertising agency, forerunner of the present Comptom agency. Marion went to Andover, where he graduated with honors in Bible studies, and then to Yale. His undergraduate years were spent in quiet obscurity. After graduation in 1938—he finished in the top

10 per cent of his class—he put in a short stretch in Hartford as a door-to-door salesman of housewares and silk stockings. Then he decided that what he really wanted to do was get into advertising, and in early 1939 he went to work for McCann-Erickson. McCann, which was billing about $23 million a year, had just put in a training program, and Harper was hired at $14 a week as an office-boy trainee. For a few months he distributed mail, helped out on research chores, and kept the executives' water carafes filled. Then he got what proved to be an important break. He was assigned to Clarence Hoppock, one of McCann-Erickson's directors, and put to work on a major research project. The project was to find out if there were certain factors that made consistently for high (or low) readership of magazine advertisements.

The Practical Crystal Ball

Hoppock had drawn up a list of 300 possible factors: position of headline, size of illustration, amount of white space, etc. The trick was to find a way of actually testing their influence (if any) on readership. Harper devised an ingenious plan. He set out to analyze magazine advertisements that had already been rated by the Starch rating service, and to see which factors on Hoppock's list were common to ads with high readership ratings, and which to ads with low ratings. Working until late at night and on weekends, he painstakingly analyzed thousands of advertisements. Of the 300 factors, he found 169 that seemed to have some influence on readership, and thirty that had an important influence. By 1941, Harper could look at a magazine advertisement *before* it was published and predict with startling accuracy what its Starch rating would be. What's more, he could teach other people to do the same thing. This made it possible for McCann-Erickson to tell, without extensive field testing, which of several proposed advertisements would attract the most readers—and, by the same token, to assure clients that they would get the readership they were paying for.

In recognition of this remarkable achievement, Harper was made chief of a newly organized copy-research section. Among the first people he hired were two Vienna-trained social scientists: Hans Zeisel, an expert in statistical analysis, and Herta Herzog, a psychologist. Few agencies then had social scientists of any kind on their payrolls, and the appearance at McCann of two Ph.D.'s with heavy foreign accents was greeted with a good deal of skepticism. The skepticism died, however, when they quickly developed a new and more accurate method of measuring radio audiences, one that gave McCann-Erickson a distinct edge over most of its competitors in radio research. In the spring of 1942, Harper took a weekend off to marry Virginia Epes, whom he had courted mainly by getting her to give him a hand after office hours with his readership-factor study. Soon after their marriage she, too, came to

work at McCann, and in the next few years she helped Harper—he had been classified 4F because of asthma and assorted allergies—develop a copy-testing technique called the Relative Sales Conviction Test.

By 1943, Harper's role at the agency was changing. He was spending less of his time doing research, and more of his time explaining it. He put in long hours with McCann's copywriters and art directors, persuading them to try his factor-analysis system. He also began to meet clients. Edward Madden, who had the job of drumming up new business for the agency, was greatly struck by the work Harper and his associates were doing—and even more struck by Harper's ability to make it sound exciting. Madden decided to build a basic presentation around the notion that McCann-Erickson, through the wonders of research, could assure advertisers of getting more readers and more listeners for their dollars. When the presentation was worked up, Madden took it on the road, with Harper, who was still in his twenties, cast in the starring role. The show was a smash hit. Between 1943 and 1947, McCann-Erickson added Chrysler, Westinghouse, and Swift to its roster of clients, and its billings rose from $23 million to $50 million.

In 1945 Harper was made a vice president and put in charge of research and merchandising at McCann-Erickson. But he did not stay long in the job. Harrison K. McCann, the president of the agency and its principal stockholder, was in his middle sixties, and he was looking around for a successor. He thought he had found the right man in Harper, and in 1947, to try him out for the job, he made Harper his special assistant and, in effect, his executive vice president.

Harper worked harder than ever. He seldom left the office before eleven at night, and he often worked through until morning. (As a result, he was not always the best of dinner companions; once, at a dinner given by Harrison McCann for members of the agency's executive committee, he fell asleep over his shrimp cocktail and slept soundly through the meal.) He was disturbed by what he regarded as the disjointed way McCann-Erickson went about its work, and to lay the groundwork for reform he set up a series of meetings called the Continuing Clinic of Agency Operations. At these meetings McCann's executives were urged to talk about such matters as how to standardize procedures, and the importance of always settling on the Purchase Proposition before starting to work up an advertising campaign.

Building the Talent Stockpile

In 1948, aged thirty-two, but prematurely bald and looking rather older, Harper became president of McCann-Erickson. Under the approving gaze of Harrison McCann, who remained as chairman of the board, and of the other veterans who still dominated the executive committee, he proceeded to give the agency a good shaking up. McCann's account supervisors had been running what amounted to separate little

businesses of their own. Harper clipped their wings and insisted on centralized planning of all advertising campaigns. He saw to it, too, that the agency's foreign branches took up the new ways of doing things, and he vigorously pushed the expansion of McCann's overseas business. (It has grown from around $8 million of billings in 1948 to more than $85 million last year.) He also began stockpiling expensive talent, often bringing in a man at a high salary even when he had no job immediately in view for him. In 1951, for instance, he hired Emerson Foote, one of the founders of the Foote, Cone & Belding agency, and carried him on the payroll as a "general executive" for four months before giving him a specific assignment. Foote is now president of McCann-Erickson Advertising (U.S.A.).

At the end of five years, during which the agency's billings almost doubled, Harrison McCann abolished the old executive committee and gave Harper a completely free hand to run the agency as he saw fit. Harper thereupon set out to remodel McCann-Erickson all over again—that is, by applying the Affiliate Principle. "We had already organized the best agency possible along traditional lines," he recalled recently. "But my God, at thirty-eight or whatever I was you can't have as your ambition just to be the best of whatever there already is."

While re-organizing McCann, Harper was also campaigning hard for new business—and with spectacular results. In one twelve-month period, beginning in late 1954, McCann-Erickson landed thirteen new accounts, among them Bulova, Coca-Cola, and Westinghouse's appliance divisions, that brought in more than $45 million in new billings. In 1956, McCann got the $12-million Chesterfield account. In three years McCann's U.S. billings more than doubled, rising from $102 million in 1954 to $207 million in 1957.

Operation Thrust

For the past couple of years Harper has left the soliciting of new business to his associates. He isn't altogether happy about this; he misses the thrill of confronting a client with flip chart and slide film, a situation Harper likes to compare to that of a matador facing a bull. But Harper no longer feels up to the seventy or eighty-hour work weeks he used to thrive on, and he has decided he had best concentrate on his principal job—i.e., transforming McCann-Erickson into a billion-dollar-a-year communications business. To speed this transformation, he has set in motion an ambitious program called Operation Thrust. According to a slide-film presentation made last year to a group of McCann-Erickson executives designated as Task Force 50—roughly the fifty highest-salaried employees of the agency—the purpose of Operation Thrust is to achieve what are described as "premeditated breakthroughs."

About thirty such breakthroughs, culled by Harper from four hundred "breakthrough ideas" turned in by members of Task Force 50,

are either in the works or in an advanced state of premeditation. They include an experiment in personnel relations, a scheme that involves, according to Harper, "letting people tell *you* how they could be more productive." Among other projected breakthroughs described in the presentation are the organization of a field force of merchandising specialists; the establishment of a center for electronically processing media data; and the extension of "programmed research" (". . . encourages management to devote a more liberal proportion of a total marketing budget to research").

For many years it was Harper's plan to make his mark in advertising at an early age, and then to quit and try his hand at education or politics. He is now in a position to do so without any great financial strain. He owns the largest single block of McCann-Erickson stock.[1] This stock, to be sure, has not lately been a particularly profitable investment. Heavy outlays for new offices and for experiments in co-creativity and the like have kept McCann-Erickson's profit margins rather narrow. But Harper's holdings have a book value of close to a million dollars, and his outside investments are probably worth several hundred thousand dollars more.

At the moment, however, Harper says he has no plans to retire from business. He would like, instead, to graft a new career onto his old one; and he has now pretty well decided that, like William Benton and Chester Bowles, two advertising men who enjoyed big successes at early ages, his new career will be in politics.

Harper's political views are of the middle-of-the-road variety, and he has said that he could find a home in either of the two major parties. But unlike Benton or Bowles, he says he is not interested in running for office. His goal is in a way more ambitious: what he would like to do is to sharpen up the communications techniques of both parties. His notion is to work in a nonpartisan spirit to help the parties pick candidates and issues in what he regards as a more rational way.

"I believe we can get politics up on to a whole different level," Harper said recently. "Do you think so many people would stay home on election day if the product they were offered was a little more stimulating? We've got to update the bosses, and teach the parties to find out what people really want. We've got to release candidates from the traditions of the party system and show them how to achieve real success. The point," he added, gesturing excitedly with his glasses, "is simply to add modern concepts of marketing."

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[1] Nonvoting stock, that is; almost all the agency's voting stock is held by the employees' pension and profit-sharing trusts.

42 Farris Defines Motorola Ad Policies: Promotion Stresses Profit Items, Not Price Leaders*

BY ROBERT FARRIS†

Motorola Corp. believes that the electronics industry, particularly tv, is obsessed with price advertising. "Judging from the ads," says Ad Director Robert Farris, "it would be difficult to know that some manufacturers make anything but a portable tv at well under $200." Motorola has embarked on a bold campaign in the opposite direction, stressing better models and quality, which may continue three or four years. Mr. Farris cited these requisites of the advertising: "It should spotlight the top end of the line, to spread the glow of Motorola quality over all Motorola products, regardless of price. It must have drama and impact." The company's merchandising and ad policies and how they are being carried out were detailed by Mr. Farris in a speech, which is presented here, given at the Mid-South Advertising Institute in Memphis.

We believe advertising must be created and executed based on accomplishing your own objectives and not to counter what competition is doing.

We believe that all advertising expenditures, in one way or another, should be aimed at attracting more people to a retail outlet in the frame of mind to permit the retailer an opportunity to make a fair profit. And . . .

We believe the major share of advertising should be brought to bear on the profitable items in the line—not just on traffic building price leaders.

If you have paid any attention to the general run of electronic ads in the past few months, I am sure you have seen proof that the above three points are quite contrary to general industry practices. For example, every manufacturer in our business offers for sale a wide assortment of models covering a broad range of prices.

Our own tv line ranges in price from $169.95 to $700 and there are 38 basic models most of which are available in a variety of finishes. This is a fairly typical industry lineup of models.

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† Director of Advertising and Sales Promotion, Motorola Corp., Chicago.

Yet, judging from the ads that appear, it would be difficult to know that some manufacturers make anything but a portable tv at well under $200. And one thing you can be sure of in our industry: There's always someone who has a lower price.

We often say that the airlines, in spite of their fare savings battle, at least are all selling "Fly." In our business, too many manufacturers' policies seem to concentrate on trying to prove to consumers what a fool they were for not waiting another week to make that purchase. This, in our opinion, occurs because too much attention is paid to what "Joe" is doing and what can be done to beat "Joe" at his own game.

Amazingly enough, this seems to be standard practice today even for companies that achieved their present stature on product quality, on product innovation and on creative merchandising.

At Motorola, we're still old fashioned enough to believe that if you build an up-to-date, quality product, price it fairly, and tell an honest benefit story, you'll do all right in the long run—regardless of what your competition is doing.

We're also just old fashioned enough to believe that if you're going to be in business then you should strive for leadership and have a creative program aimed at establishing that leadership.

Let me give you a more specific example:

While this example is an average of these several industries, it holds basically true for the individual industries as well as for the group as a whole . . . and it probably holds true for local retail business as well.

White bars represent share of public acceptance, black represents share of market. The letters indicate the eight leading brand name competitors in order of share of market.

In all the industries surveyed, the three brands with highest consumer acceptance also received the highest share of market in exact order of their acceptance. Starting with the No. 4 position, you will note some changes. No. 4 in share of markets is sixth in acceptance. No. 5 in share of market is fourth in acceptance, and No. 6 in market is fifth in acceptance. No. 7 is where it should be and No. 8 is at bottom in acceptance and market.

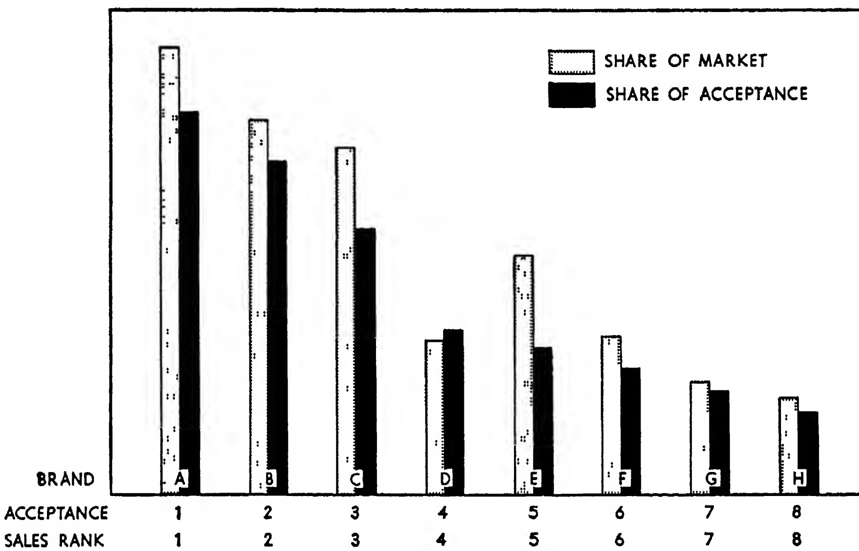
These temporary upward shifts—greater share of market than their public acceptance would indicate—can be caused by a number of factors—a new product competitors don't have—unusually good product features—a unique merchandising program, etc. The reverse is usually true for those not selling up the level of their public acceptance.

Approximately three months ago, the Motorola distributor organization attended a new product line introduction in Chicago. Over the stage hung a large banner imprinted with the words:

Progress Our Objective—
Leadership Our Goal.

For our Motorola advertising and merchandising programs this meant accomplishment of a very basic function—to create a rapid and continued acceleration in the acceptance of Motorola products among the buying public . . . and the retail dealers . . . because their opinion, as reflected in their purchasing, is the final judge of our success.

As you know, it is a basic fact of marketing that the brand name with the greatest public acceptance generally attains the greatest share of sales in that market. On the adjacent chart you see a typical example of how business is divided. This is a sample cross section of several industries including many kinds of products . . . among them electronics.



You will find that below the top two or three sales positions, various competitors in an industry may make temporary gains in share of market as contrasted to share of acceptance, but they never hold that position for any length of time, nor can they ever attain leadership unless their brand acceptance also grows. In other words, their other competitors quickly catch up with new products, with new features, etc. And as soon as these factors are equal, acceptance again becomes the governing sales factor.

TV Ads Aimed at Immediate Sales Miss 97% of Families

There is also a very convincing business reason why an acceleration of public acceptance is vital to *present* as well as long range growth . . . and it's one often overlooked.

In the second quarter of 1960, less than 3% of all American families purchased a television set. This means that all the advertising done in

those three months directed *entirely* at *immediate* prospects basically missed 97% of the families—because they just weren't in the market to buy.

When you eliminate that 97% and concentrate on the 3%—you want to be doggone sure you have a fair chance to get your share of the currently available purchasers . . . and to get that share through reasonable expenditures of advertising and merchandising monies.

As we stated earlier, it's just common sense that everything being reasonably equal, the lines with the greatest acceptance are going to get the greatest share of this 3% of immediately available business. And those words "reasonably equal" are mighty important. If you're at the low point in acceptance, "reasonably equal" won't help at all, you'll have to give your product away to attain any appreciable sales volume.

Even those drawing close to the leader must have advantages in product, merchandising, dealer representation, etc., to continue to gain and, most important, they'll never permanently overtake the leaders . . . no matter what the program . . . until that leadership acceptance factor is there.

At this point in the program we told our distributors we couldn't give them a better example than an ad we showed them of a certain local private brand tv manufacturer, which advertises prices far below those currently found in the market. If public acceptance were not a controlling factor, this company would be No. 1 in sales, because certainly no one else even comes close to matching what they claim to have for the price.

There was another reason for showing that ad. Lasting acceptance comes only from truly fine product quality with top flight styling available at a reasonable price . . . not from advertising claims. We've had the quality, the styling, the value for some time now . . . even our competitors are beginning to look at us as a standard of comparison.

This gives Motorola the base needed to build our dealer and consumer acceptance to a leadership position. Actually, we should separate dealers and consumers when we speak of the need for accelerated acceptance. While we still need to build at the dealer level, our image there is fast approaching the leadership level—and will grow even faster as we continue to increase consumer demand, because the two go hand in hand.

How Campaign Was Devised

But now comes the big question. How do we want these people to think of Motorola? Obvious cliches come to mind immediately:

"A firm that makes quality products . . . . . . one of the leaders . . . a company that will not only give me satisfactory performance for my money, but will make my friends approve of my judgment."

These are worth while objectives, but "quality" and "leadership" have been claimed by so many so often that, used by themselves, they slide

into one ear and out the other. Can you think of one manufacturer who would admit that he does not make a quality product? We know of none who would have people believe that his company is something less than a leader.

So, how do we make people believe of Motorola what every competitor would like to have them believe of his firm?

Well, these are the points our agency, the Leo Burnett Co., recommended as the basis on which to build our image:

1. We must be believable.
2. We must be fresh enough and distinctive enough to make the thought that we want to plant stick in the consumer mind.

Would people believe us if we told them Motorola was the leader in electronics? We doubt it. There are older companies and bigger, better known names.

But suppose we called ourselves "The New Leader"? This leads to a line that is right for Motorola, because it is Motorola: "*New leader in the lively art of electronics.*"

This is what we are, or at the very least, are in a fair way of becoming. This is a concept that fits the company today and will fit the company in the years to come. This is a concept which should appeal to the most responsive section of the market—the young people who are marrying and furnishing their homes, the many families who are moving up in the world. These people are open to new ideas. They are prepared to accept new leaders. They prefer the lively to the stodgy.

We believe the word "new" is most important to the believability of this phrase. It does not challenge the belief of someone who has always felt that another company was the leader. Chances are he may have heard of Motorola's progress. If so, he is likely to accept the fact that Motorola has attained leadership and is now the "New Leader."

How Consumer Reaction Shaped Up

To check consumer reaction to this statement, our agency research group showed people a card with the line "New Leader in the lively art of electronics" on it. The Motorola name was not mentioned. They asked, "What kind of company would you expect this to be"?

Here are the most frequent answers:

A company that has new ideas in electronics.
A company with more research.
An aggressive company.
One of the present leaders.
A large company.
One that continues to advance.

Then they were asked how the products of this company would compare with those of other companies. This is what they answered:

Products would have to be better. Best in the field.
Products would be something new.
More advanced. Improved. Modern.
A nice piece of furniture. Better styles.
Something no other company has.

Most important, there were no negative answers—everyone reacted positively and favorably.

These answers indicate that this line positions Motorola the right way. It can be an overriding thought that can add an extra aura of quality and desirability to every Motorola product, a unifying theme that can make every Motorola ad work to build the same desirable Motorola image.

The promise is not in the words themselves, unaided. It is in the product quality, engineering advances, and styling that make the line a living truth that *is* Motorola. Now the problem is to build advertising that projects this truth.

To create this advertising, our agency first showed us a large array of competitive advertising campaigns. These ran the gamut from straight price . . . to reliability and feature performance . . . to Quality and Magnificence.

Now it was just common sense that we weren't going to make any rapid improvement by imitating or improving on someone else's campaign. We couldn't do it by following competition or worrying about their approach.

So our agency laid down these requisites for our advertising.

1. It must be distinctive and modern in format and art. It must look like the advertising of the "New Leader in the lively art of electronics."
2. It must state the specific consumer benefits of the Motorola products advertised.
3. It must permit highly visible staging of the "New Leader" theme, yet allow for a selling headline.
4. It should spotlight the top end of the line, to spread the glow of Motorola quality over all Motorola products, regardless of price.
5. It must have drama and impact . . . on consumers and, just as important, on dealers.

Obviously, this is a big order. We think it has been accomplished with a national advertising campaign that is totally unlike anything our competitors are running, or have run and which presents Motorola merchandise in a way that, pursued with continuity and patience, will inevitably build a greatly enlarged share of consumer acceptance for Motorola and hence a larger, firmer share of market.

I mentioned that we planned to pursue this course with continuity and patience. We certainly meant it with a 1961 campaign greatly increased over our 1960 expenditure. I might add that this 1960 expenditure was very competitive for our industry.

One of these dramatic spreads will appear almost every other week in

two of the largest mass weeklies until the end of the year. In addition, three important monthlies catering to specialized audiences carry a full schedule.

And to cap it off, there's a consistent schedule of small space ads in two of the national news magazines, plus a regional publication that we will run in cooperation with the Drexel Furniture Co. But even more important, if this program proves as effective as we expect, we'll continue it two, three, even four years. And with this kind of dramatic new ad format, the same powerful kind of scheduling—we feel sure we'll build the kind of consumer acceptance we need to attain and hold sales leadership.

To date, the favorable reaction to this campaign has exceeded even our most optimistic expectations and only four insertions have appeared. We truly feel we have a real winner in this campaign.

This we feel is an example of designing a program to accomplish your own objectives, rather than "putting out fires" caused by competitive pressures. And . . . if this program is as successful as we feel it will be, it will still "put out the fires" over the long haul even though that is not its basic purpose.

Shun Dealer Loaders, Promotion Allowances

Earlier I stated that we believed in spending advertising monies on the basis of creating consumer traffic—but the kind of traffic that gives the retailer an opportunity to sell at a profit.

Let me give you a specific example. This example concerns the sale of stereophonic high fidelity equipment—a relatively new item as electronic products go.

As you may know, stereo sales are more seasonal in nature than is tv, with the last four months of the year accounting for a great majority of all sales. A sharp dropoff usually occurs right after Christmas. To counter this dropoff, we wanted to develop a practical merchandising activity that would keep interest focused on stereo.

For some unaccountable reason, the general industry practice today is to correct such a situation in one of two ways. First is by creating what is termed a "dealer loader." However, these words "dealer loading" are used only in the manufacturer's conference room—never with the dealer. Outside the conference room they would piously deny that such a thought had ever crossed their minds, although they would admit that "you can't do business from an empty wagon."

What is a dealer loader? Well, the most frequently used one today is the "exotic trip" offer. In other words, the dealer buys X number of units and for this he gets an all expense paid trip.

Some of the recent trip offers have been to Europe, Israel, Hawaii, Panama, and, of course, the popular Caribbean resorts. Sometimes you fly—sometimes it's on a chartered luxury ocean liner.

Now on the surface this may seem like a fine deal—but there are always a few hookers.

First of all, most dealer loaders are based on getting the dealer to buy from just a little more than he normally should to quite a lot more. Extended credit is usually offered to make the bait a little more attractive.

Next, there are usually a few "dogs" in the purchase package that are "must buys" in order to qualify.

Last, a very modest trip budget will exceed a quarter of a million dollars—and a healthy one will exceed a million dollars. This money is now no longer available to help the dealers entice purchasers into the store.

Of course, to top it all off, the dealer and/or his top salesman are then pulled out of the business from one to two weeks. It's fun while they're gone, but they often come back to a problem—and it's a problem that the manufacturer now says is "your" problem—you own the merchandise, you move it.

And after finally unloading the merchandise—probably at a loss—the final cruel blow descends on our dealer. He gets a bill from the Internal Revenue Collector, who counts such trips, or a portion of them, as added income.

The second standard approach is the "promotion allowance." Here, in return for buying X number of units, the dealer gets a "promotion allowance" of X number of dollars per set. This money is supposedly to be used for advertising, display and other promotional activities.

Unfortunately, it too often ends up as a further discount on already depressed prices. Worse yet, these promotion allowances usually come out of the money originally earmarked for newspaper, tv, and radio advertising.

So, if the reduced price doesn't work, you're still stuck with the price so you can't get your allowance back and now you've got to come up with another sizable chunk of money in the hopes of moving inventory. And, in the meantime, nothing has been selling.

How Motorola Tackled Seasonal Sales Problem of Stereo

While this is standard industry practice, we can't agree that this is the kind of creative advertising and merchandising strategy that builds our economy. Maybe we're old fashioned, but here's how we approached this seasonal stereo sales problem.

As the industry's sales leader in stereo, we felt we had a dual obligation to our dealers. First, to increase their sales immediately, and second, to broaden the market for stereo. Since demonstration is the best way to accomplish both objectives we built our program around giving our dealers the opportunity to demonstrate stereo to large numbers of consumers. We felt the following steps were required:

1. We used an incentive to get consumers in . . . and the kind of incentive that would entice in even those not presently interested in stereo.

We came up with a dual incentive. First, the offer of a free consumer trip for two to Europe—and that's a consumer trip. This they could win by writing, in 25 words or less, the best answer to "I would like to have a Motorola Stereo Hi-Fi because."

2. We offered each consumer his choice of four "Around-the-World" gift items. These items were from $2.95 to $3.95 in value and recognizable as such. By listening to a demo, however, the consumer could buy them for just $1.

These gifts solved two other common problems. First, they cost us just $1 so the customers actually paid for the traffic builders in their entirety. Second, the gifts were shipped from four different foreign countries, adding the appeal of getting a package from a romantic spot and relieving us and the dealer of any inventory. The four gifts, incidentally, were selected for their proven pulling power from previous promotions in unrelated industries

3. We informed the public of our offer. This took four approaches. One was naturally newspaper advertising on the local level. Next was a direct mail brochure which we mailed either to the dealer's own list or on an occupant basis in the areas he designated. Third, was a professionally installed window designating the store as Motorola headquarters, and fourth was a complete in-store package of easel cards, entry blanks, over the wire pennants, etc.

Then, because we expected a lot of people would come in only to enter the contest or get a bargain gift and with no interest in stereo, we developed a special five-minute demonstration record. This record was designed to show people the wide range of family enjoyment that a stereo could bring into their home. On it were excerpts from Broadway shows, classicals, religious readings, great books, historical events, etc.—in other words to show them what a broad range of recordings are available.

Naturally, it also covered the exclusive sales features of Motorola stereo and gave the retail salesman a chance to cover any additional sales points.

Then to get our distributors actively helping the dealers, we asked that each distributor salesman spend six consecutive Saturdays in a dealer store holding demonstrations. Each salesman was also required to hold at least two sales training meetings a week for six weeks. These could be with individual dealers or groups of dealers.

Last, we organized a contest for distributors based on the best retail activity staged during this promotion. First prize was an all purpose delivery truck, second was a $1,000 Motorola stereo console.

By almost any measure, we think this activity was a success. More than 4,000,000 consumers received a direct mail brochure showing our entire Motorola stereo line.

Over 500,000 of them came in for a demonstration. Can you imagine how many would have come in and how many dealer sales could have been made if the whole industry had used this approach instead of loading the dealer and letting him worry?

Best of all, we exceeded our sales quota for the period at a time when the rest of the industry was experiencing a sharp down turn. Many top dealers around the country have been highly complimentary of this program and are urging others to do likewise.

So again may we say we believe that every dollar should be aimed at getting in customers—not just at loading shelves. If you can get them in, there's no problem in the loading.

How Price Leaders Flounder

The third point in our philosophy is concentrating on the profitable items in the line—not just price leaders.

Everyone in business should be in business to return a profit on investment—and that's at all levels of distribution. Yet too few manufacturers today are practicing policies that will enable this to happen. As far as our industry is concerned, we know of nothing more damaging to profit potential than concentrating all your effort on the so called "price leader—step 'em up approach" so prevalent today.

This approach sounds good in theory but three things happen. First, very little "stepping up" is done and what is done is from the bottom up—and that's never very far.

Second, the next guy has to produce a hotter "price leader" and the margin squeeze starts. In the end, it's the retailer who gets hurt the most.

Third, and in the long run, most serious—not many new product innovations, new product benefits, or new product items result when an organization devotes its entire effort to "making 'em cheaper."

Now concentrating on the profitable items in your line has some disadvantages too. You can't do it unless your product truly has something to offer to the public.

You can exploit a sharp gimmick for a while, but it finally catches up. The only thing that pays off in the long run is true product benefits. This means you have to spend the time to find those benefits and then the way to explain them to the public. Believe me, it's a lot easier just to advertise the lowest price or the biggest saving.

But again we believe that advertising plays its true role in building the economy when it finds and explains the benefits in such a way as to obsolete sets or to create new demands. Here's one way we attempt to do this:

'Impact' Program Has Time Limits

Three times a year, we conduct local retail activities that we call, "Impact." We use the name, Impact, because we try to co-ordinate all the various phases of the program in such a way as to create the maximum amount of impact on the consumer in a given period of time. This program has four main elements: Local newspapers, 24-sheet posters, professionally installed windows, and in-store displays.

Over 200 U.S. markets have been designated as Impact markets and all of these elements are used in these cities. Newspaper ads feature three or four models usually in the middle and upper price range, although a few will contain a small cut of a price leader.

Our selling emphasis is on reliability and our exclusive one-year warranty, as compared to 90 days on other makes. We also play up the features that make this reliability possible.

Now, these ads must be run "as is." We permit no changes in copy or layout. The ads appear three times a week for three weeks and the number of newspapers in which they appear depends on the size of the market. For example, cities up to 250,000 use one paper and it goes on up to cities over a million which use four papers.

At the same time the newspaper ads are appearing, we schedule 100 showings of 24-sheet posters in each market. These feature a high-end model and the same general reliability theme.

Then we have professional window trimmers install a full line window with plenty of feature copy using factory prepared material. Nearly 5,000 such windows are installed nationally during a typical impact campaign. And in-store, point-of-sale material is prepared on the same general theme and put up by our distributor salesmen.

We believe this kind of co-ordination and support is a reason for dealers to devote a major share of their selling effort to Motorola during the period of the campaign. Dealers apparently think so, too, because this is our third year on the approach with their support and it has contributed greatly to Motorola's increased sales in that time.

And, incidentally, you might be interested to know that while Impact newspaper ads are factory prepared and, in a sense, are key city type ads, we have them run over individual dealer's names instead of the more common national rate approach usually associated with such ads.

The net effect is that we are able to run almost two and a half times as much linage compared to using national rate type ads.

Motorola Amateur Art Program Helps Create Customers

And, now I would like to show you a program that accomplishes all three of the merchandising philosophies we try to achieve at Motorola. This one is a perfect example of the fact that a ten strike campaign doesn't have to be expensive.

It's the Motorola Amateur Art Program.

We started this program as a test in the fall of 1959 and staged amateur art shows in five cities. In 1960 we staged shows in 20 cities and added a national award showing in Chicago. This year, 34 such shows will be held.

Here's how the program works. We have engaged a separate promotion agency for this activity. Working with our distributors who select the best dealer available, this agency contacts the various art clubs in the

vicinity and gets them to enlist artists to exhibit their paintings at the Motorola dealer's showroom. The agency is completely prepared to present the program, too. The agency handles all details of mailing entry blanks, obtaining publicity, selecting judges, getting the paintings hung, etc. . . . and the results are phenomenal.

You should just look at the crowds that gather, if you don't think there's interest in art. Every artist yearns to exhibit his work, and believe me, he gets every neighbor, friend, and relative he has out to see his painting.

As many as 9,100 people have turned out to one location and these crowds see a complete display of all Motorola products. In addition to the crowds at the showing, this activity gets the kind of publicity it's almost impossible to get: Newspaper articles with pictures, even on the front page, free tv interviews, free radio time, even mentions by the best read columnists. Prominent city officials usually make the awards and this gets good coverage.

It reaps lasting benefits, too. In Sioux Falls, S.D., where 2,100 people attended, the Chamber of Commerce declared an Art Appreciation Week and 65 Sioux Falls merchants put in windows featuring paintings from our show. The enthusiasm for this activity is contagious. How much is a window like this worth? While it's hard to put a value on a window, I think you'll agree that this is one in which anyone would be proud to have their merchandise displayed. Each time a local show is held, three winning paintings are selected. In late June of this year, all the winners were shipped to Chicago for national judging.

In last year's exhibit in Chicago's Prudential Building, more than 50,000 people viewed the exhibit and we expect an even bigger crowd this year. We might add that you would be amazed at the tremendous quality of the art exhibited. From these paintings, six grand prize paintings are selected. These are used on our Motorola art calendar.

Next year we hope to stage 100 of these shows—one in every distributor's home city across the country. We think this activity has a chance of attaining the same kind of fame nationally as Pillsbury's "Bake Off."

For example, the winning paintings from our 1961 exhibition in Chicago will be exhibited at the United Nations Building in New York, then at the famous Lever Bros. building in the same city. Literally hundreds of thousands of people will see them . . . and the name Motorola.

The cost? Well, it's phenomenally low. As I said, the artists themselves do most of the traffic building work. We usually run only one small space ad on the show. Because art is the public interest, the publicity is also free. The dealer's showroom is the site, so there's no rental and since the artists themselves hang and remove their pictures, there's no setup charge.

Most dealers do offer three prizes and free refreshments—and that's

about the only cost. Can you think of a better, less costly way to create traffic, build prestige and good will, and, best of all, sell merchandise?

Perhaps it's an old fashioned approach, but we think it sure beats "was 300—now 200—save 100," which seems to be the general industry approach. One thing we know for sure, the majority of people who attend art shows buy upper end sets and they want performance first and price second.

It just seems to us that this is the way merchandising people should aim their efforts—at the kind of activities that, if they work, pay off in extra profits now plus the extra dividend of a continued chance to sell at a profit later.

Turkey Commands Attention

And now a little homely philosophy. At Motorola, we feel that it takes three major factors to make our philosophies work.

The first is know your problem. It's pretty difficult to develop a satisfactory program when you don't have all the facts. And sometimes you have to dig below the surface.

The second factor is attention. Many promotion campaigns wouldn't even be necessary if proper attention was placed on sales movement all across the line all the time.

Every Thanksgiving we always bring out a modest little promotion offering a free turkey with the purchase of a Motorola tv. This offer is limited to one model and we always select the slowest mover in the line for the previous 30 days.

Now, this offer is worth about $5. I doubt that there's a store in the country which, if you offered $5 less than list on a set for immediate delivery, would decline to make a deal. So our turkey is no great value offer.

It only accomplishes one thing—it focuses attention on that model. And every year now for almost five years, that model has jumped from last place in movement to the top three. Take off the turkey and back it goes. Yet nothing in the product or its appeal changes—only the attention.

Third, and most important, is attitude. You can have the greatest products in the business, the finest in policies, but if you don't fully understand them or believe in them, then you can never develop the kind of programs that will take maximum advantage of what you really have to offer. And you can't "half way" believe in a policy or a product. You have to believe with all your heart.

Distributors Have Big Stake

But then perhaps we're just old fashioned in our beliefs. Now I would be remiss if I did not acknowledge another major factor in Motorola's rapid rate of growth, and here again I suppose we'll be pegged as out of

step. Because we believe in independent distribution. We sell our products to 94 independent distribution business men. . . . Our only branch operation is in the Chicago area, and that's only because there is no independent capable of handling the line.

And we sell only through these outlets. We make no sales to special groups that bypass our distributors, and we can guarantee you that this is a departure from normal practices.

We do this for a very simple reason. We believe these business men with a sizable amount of their own money invested have a much greater reason [than anyone else] for practicing the kind of sound sales and merchandising policies we advocate. After all, they have more than a job to lose if they don't build for the future. And we think building for the future is the only way to secure leadership. Contributing to such building, in our opinion, is advertising's major role.

43 Old-Line Selling for New Smokes Wins for Reynolds*

One morning in May, 1954, a group of top executives of the R. J. Reynolds Tobacco Co., and its advertising agency, William Esty Co., were huddled around a table on the 19th floor of the company's headquarters building in Winston-Salem, N.C.

They were poring over newspaper ads for Winston, the Reynolds filter cigarette introduced a couple of months earlier. A search was on for a fresh slogan that would carry the message about Winston to the swelling band of smokers then switching to filter cigarettes.

As Reynolds' board chairman, Bowman Gray, recalls the scene, some member of the group picked out a sentence down in the text of one ad to the effect that Winston's tobacco tasted good. "Winston tastes good, like a cigarette ought to," cried one man. "No—like a cigarette should," shouted another, and the slogan—which Gray calls "colloquial" rather than ungrammatical—was born.

Clues

This anecdote holds several important clues to understanding how Reynolds has outrun its competitors to reach its present position as the country's leading maker and marketer of tobacco products, with 1958 sales of $1.1-billion.

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* Reprinted by special permission from *Business Week*, February 20, 1960.

Within two years, Winston broke through established competition to grab the top spot among all filter cigarettes—which now account for almost half the total cigarette market. Reynolds' success in taking an early lead in this burgeoning market largely explains its over-all lead in the cigarette category.

The story underlines a theme basic to all Reynolds cigarette advertising—taste, the pleasure of smoking. The company never got into the filtration battle that last year saw three different brands each claiming scientific proof that its filter filtered best. This approach has clearly paid off in sales. There's another gain, too—Reynolds' advertising will scarcely be affected by the new Federal Trade Commission rules announced last week preventing tobacco companies from advertising filtration with its implied health claims.

Implicit in the story, too, is the fact that marketing strategy—in which advertising looms large—is where a tobacco company's fortune is won or lost. More than in most industries, tobacco executives have a hand in the marketing plans that mean the difference between a sales skyrocket and a shelf dust-gatherer.

Reynolds today is run by two men who came up through sales. In a double shift last fall, Gray moved up from president to chairman and chief executive officer, and F. G. (Bill) Carter to president. Both were once Reynolds sales managers. The retiring chairman, John C. Whitaker, by contrast, had been manufacturing vice-president.

Signs of Health

In short, the anecdote sheds light on what a Reynolds competitor means when he says dryly, "They seldom touch anything that doesn't turn to gold." With cigarette sales at a record high of 453-billion units, all six major manufacturers are feeling rather well. Even so, Reynolds' glow of health is conspicuous:

Besides its leading filter, Winston, it markets Salem, the leading menthol cigarette. This category now accounts for better than 10% of total cigarette sales, and it is still growing.

Its regular-type brand, Camel, slipped last year from its long-time lead as the biggest-selling U.S. brand, according to *Business Week*'s annual survey. Another survey, conducted by Harry Wooten for *Printers' Ink* magazine, had Camel still leading. Camel's decline in market position was part of the general decline in the regular-type product. Yet Camel is still the leading regular (Pall Mall, a non-filter king, took top spot in *Business Week*'s survey). More important, in the face of falling sales for regulars as a group, Camel last year reversed its own four-year slide and picked up a small but comforting gain over 1958.

Apart from cigarettes, which account for about 95% of its sales, Reynolds markets the country's leading pipe tobacco, Prince Albert, and its leading chewing tobacco, Days Work.

That puts Reynolds in the sales lead in every tobacco category except non-filter king-size cigarettes. Here its entry, Cavalier, admittedly fizzled.

Sales and earnings figures for last year, scheduled to be released this week, are reported to hit a new record. Reynolds generally earns more on its sales than other tobacco companies, and its profit margin has improved over the years—its earnings rising from 3.09% of sales in 1953 to 6.83% in 1958.

Staying There

Reynolds moved into top spot out of the upheaval in consumer smoking habits that has stirred the tobacco industry during the past six or seven years. That upheaval has not calmed as yet. To stay ahead, Reynolds must beat off intensified competition and improve its gains. "The man at the top," says Gray, "has every gun in the industry trained on him."

To get some idea of what lies ahead—and a fuller picture of how Reynolds won its sales lead—take a look at its action in the context of what has been happening in the tobacco industry. In essence, it's a story of fast and well-timed footwork on the shifting ground of consumer demand.

I. UPHEAVAL

The storm that broke over the cigarette industry can be described in one word—cancer. In 1953—after two decades of rising sales, with four or five top brands taking 85% or so of the market—early reports linked smoking with possible lung cancer. Cigarette sales tumbled from a high of 394-billion units to a low of 368-billion in 1954.

That year, the industry started marching again under a new banner—filter cigarettes. But once the grip of the old favorites was loosened and consumers showed signs of seeking something new, cigarette makers found themselves in a race, willingly or unwillingly, to give—and maybe tell—the smoker what he was looking for.

Challenge

This was a sharp challenge for the big companies. In 1954, Reynolds, with a 25.1% share of the domestic cigarette market, was in second spot, behind the entrenched American Tobacco Co., with 33.4%. Reynolds' standing rested almost entirely on Camel, and Camel—along with other regulars—was slipping. Reynolds had to do something.

Gray describes the predicament of the big companies with the remark of a friend: "You guys were just a bunch of bankers—every year you had a gain and took in your money. This thing waked you up."

Clearly the situation afforded new opportunities to the company that could seize—and more important, hold—the advantage.

Twice in the past six years Reynolds met a crucial test. It successfully developed and marketed two new brands of cigarettes, both of which became market leaders.

II. REYNOLDS MOVES

Like other tobacco manufacturers, Reynolds around 1951 began noticing small but significant increases in sales of filter cigarettes, especially abroad. During 1952, the company started work on a filter. "We saw the demand coming," asserts Gray, "but we were only partly down the road to a filter cigarette we liked."

Early in 1954—with the cancer scare growing—the company was ready to move with its new filter. Competition came chiefly from Viceroy—which pretty much had what filter market there was in the U.S., and the newer L&M. Kent was then a premium-priced product.

"Our basic concept for this new cigarette was different," explains Gray. "We were trying to give the smoker a filter cigarette that tasted like a cigarette."

From the first, Winston advertising muted filtration claims, stressed taste and enjoyment, with such slogans as the Winston tastes good one and the current "it's what's up front that counts."

Winston reached the market in March, 1954. In the ensuing nine months it sold 6.5-billion units, far exceeding expectations. The next year, Winston shot up just behind Viceroy. During 1956 the brand sold 31-billion cigarettes, becoming the leading filter, and the first one of its type to move up among the top cigarette brands.

Repeat Performance

Even with such a sales record, some industry observers believe that Reynolds performed an even more remarkable feat with its Salem brand, in cultivating and profiting from the market for menthol smokes. In this view, Salem represents a notable case of sensing market potential in consumers' weakening brand loyalties and vague desire for something new, and directing this desire toward a specific product.

In many respects, Gray indicates, the introduction of Salem was quite different from that of Winston. For one thing, it was not rushed through in the face of shouting consumer demand. "For a couple of years, we had this one in our back pocket," admits Gray, "the package was designed, the blend all ready. With other brands, we developed promotions at the time of the introduction. But with Salem we settled on the promotion long in advance."

Aim

Basic ingredients in Salem's introduction were the timing and the sales pitch. With an eye on his competitors, Gray is somewhat evasive about

the reasons behind the timing. "There was a segment of the market—small as it was—that looked like it might be profitable when it was ready. It was only 2%, and we weren't looking for a share of 2%."

But Gray adds that growth in market size wasn't the key to unlocking Salem from the vaults. For years the menthol market was pretty much the market for Kool cigarettes, with strong medicinal overtones to its promotion. Reynolds wanted to create a different market for menthol smokes, not simply take away part of Kool's segment.

"We were not shooting at the menthol market," Gray says, "but at the cigarette market. We saw a trend toward lightness in many areas—and if we could make a light, pleasant cigarette, it should have an appeal."

Winner

Salem came out in April, 1956. Reportedly, its introduction was pushed up nine months to beat out Philip Morris' new menthol version of Spuds. The sales theme developed the notion of light, fresh, "springtime" smoking. "Refreshing as all outdoors," sang the ads.

Smokers poured outdoors, and the first year Salem sold 2.5-billion units. The very next year it passed Kool to hit 11-billion units and become the leading menthol. Last year Salem hit 27-billion unit sales in the face of strong competition from a host of new entries.

III. STUBBED TOE

The success of these two brands removes some of the sting from Reynolds' most notable failure—the relatively poor showing of its non-filter king-size Cavalier. Introduced in 1949, Cavalier never caught on. Last year it disappeared into the "all others" category of BUSINESS WEEK's annual round-up.

Reynolds officials resignedly offer various reasons—which boil down to the fact that people just didn't like it. Cavalier was a mild blend entirely of domestic tobaccos, what tobacco men call an English-type cigarette. Gray connects the rejection of the brand with the pleasure principle. "People were just not getting the satisfaction they wanted to get," an executive says, "so now we've got a monument to trying to tell people what they ought to want."

Learning Well

But this failure pointed lessons for the future that served well when Winston came along. "We had had previous experience in bringing out a cigarette," Gray says of the Winston period, "and we learned a lot from that. We learned that the public just didn't want a too-bland cigarette. And we tried a lot of gimmicks in our sales promotion for Cavalier that we didn't try again. We started our national advertising from the begin-

ning instead of on a test-market basis. Finally, we learned that timing and a reason for a new cigarette are pretty important."

After all, Gray sums up, "Anybody can stub his toe, but the question is whether you just bruise it or knock your whole leg off."

Despite the stubbed toe, early in 1958 Reynolds nudged ahead of American Tobacco for the dominant market share. Last year it increased its lead, now holds some 29.5% of the domestic cigarette market, to American's 26.4%.

Other companies have had their success stories. Lorillard's Kent, for example, was the talk of the industry for several years. But last year Kent slipped.

IV. KEYS TO GROWTH

Close observers of Reynolds find it easier to describe the company's performance than explain it. Company executives talk little about business theory, stress the old-fashioned virtues—what Gray summarizes as "organization, planning and a lot of hard work."

Gray lays great stress on teamwork: "It's everybody's thinking—not somebody sitting on a flagpole doing it," he insists. Other executives echo Gray in feeling that having the organization all in one town contributes to this.

More and Larger

Most outside observers believe that the true explanation for Reynolds sales leadership must be sought in the fact that it steadily pours its energies simply into performing the job most vital to any cigarette company—marketing its products—persuading the consumer to want its brands, and seeing to it that these brands are readily available.

It accomplishes this job through two major efforts—national advertising and its force of field salesmen.

Characterizing these efforts, again, is an absence of pyrotechnics.

One fact does stand out—Reynolds spends more on its national advertising and has a larger sales force in the field than any other tobacco company.

Ad Policy

In 1958, for example, Reynolds spent an estimated $44-million on national advertising, spread lavishly among just about every medium, with network TV accounting for $16-million, the largest share.

The persistence of Reynolds' advertising effort is reflected in its relationship with its ad agency, William Esty Co. Reynolds took on Esty in 1933. Gray feels that having an agency that is "a member of the family—argued with, agreed with"—contributes greatly to developing and holding to a consistent line of advertising.

Firing Line

To fight the battle of the brands on the firing line, Reynolds fields a sales force of better than 1,000 men, whose aim is to see that Reynolds brands are displayed as prominently as possible in as many outlets as possible. Today, with five times as many cigarette brands as 10 years ago, this job is even more vital. But Reynolds' field selling methods have changed.

Up to World War II, explains Pres. Carter, Reynolds salesmen simply tried to sell the retailer. Some jobbers say Reynolds men got the reputation of forcing products—often unwanted—on the retailer. This has changed, says Carter:

"Following the war we began to think more and more of the retailer's problems, and developed a program of assistance to him in selling cigarettes."

This includes arranging merchandise on the shelves, seeing that items are fresh and in full supply, setting up displays, and the like. In some cases, where permitted, Reynolds salesmen may even take over the retailer's cigarette shelves, stocking them with competitive brands as well as their own.

V. THE FUTURE

This is the support Gray says his company can draw on in the competitive years ahead. Despite signs last year that some brands are settling down, Gray is not looking for any immediate letup in brand juggling. "You haven't seen the end of new brands," he says.

A persistent rumor is that Reynolds will try another king-size to replace Cavalier. "It's always possible," says Carter cryptically.

But the most potentially dangerous threat to cigarette sales, though abated, has not disappeared. This is a possible connection with lung cancer. Gray admits that nothing short of a discovery of the cause of the disease will completely remove this threat.

Reynolds itself is conducting no research in this area. Like other makers, it channels funds for research through the Tobacco Industry Research Council.

New Plant

Gray's most concrete response to a question about the future is to point to the new $30-million plant now under construction in Winston-Salem, which will add some 25% to the company's manufacturing capacity when it opens in the spring of 1961.

Diversification

Like other tobacco companies, Reynolds has been trying to edge into diversification. A deal with Warner-Lambert Pharmaceutical Co. fell

through in 1958. "We found some areas we couldn't reconcile," says Gray, "but it was all settled amicably."

Reynolds is now deep into making aluminum foil in its Archer Aluminum Div., which started operations in 1958. Meanwhile, reports Gray, "the diversification committee is active."

44 Opening New Doors to Old Market*

SKF Industries, Philadelphia, faced a common industrial problem—how to make a standard product distinctive from competitors'. Its solution: personalized campaigns for each audience in its market.

Two years ago SKF Industries, Inc., of Philadelphia began dropping huge, shaggy St. Bernard dogs squarely in the center of its purchasing agent ads. What are the dogs doing there? That's hard to say precisely. But the campaign was designed with well-defined objectives, and it has been outstandingly successful in accomplishing them.

This slightly zany approach is just one part of a frontal attack that SKF Industries has been making on one of the commonest—and toughest—problems of industrial advertising: how do you make a standard product stand out in your customers' minds?

SKF operates in an industry with some half-dozen major competitors and about 20 smaller, but significant, manufacturers of specialty bearings. A world-wide company with headquarters in Sweden, it claims the number-three sales ranking in its U.S. market, behind The Timken Roller Bearing Co. and New Departure division of General Motors Corp.

All of the companies' bearings generally look, feel and behave just alike. Bearings, like many other industrial products, must meet industry standards.

Design changes don't come frequently, and it never takes competition long to catch up. SKF recently reduced the noise factor in its bearings by some 50 per cent, but realizes it has gained very little competitive advantage because other companies are following closely. "This is a leapfrog business," says Herb Hynes, account executive at SKF's agency, G. M. Basford Co., New York.

When Basford took over the SKF account in 1958 it considered several

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ways to distinguish its products from competitors'. One of the agency's first moves was to survey the market for bearings. The agency has set up an affiliate entitled Industrial Research Associates, headed by research director John DeWolf, to carry out this type of study. By having a separate research organization under a separate name, Basford officials feel they can get virtually unbiased comments from the industrial people they interview. The name of the client is never mentioned.

The report for SKF required several hundred man-hours. Interviewers talked at length with scores of SKF distributors and customers.

Several significant facts turned up, which virtually revolutionized SKF advertising:

> Team buying is becoming more and more widespread among both original-equipment manufacturers (OEM) and replacement buyers. (At present SKF's sales are about 74 per cent to OEM and 26 per cent for replacement.) A decade or two ago, the design engineer was the all-important buying influence on bearing customers. Today the general manager, purchasing agent, production engineers, even company president and other officers often work as a team to draw up an approved list of suppliers. The purchasing agent then shops around for the best value.
>
> Purchasing agents, by and large, are not engineers, and are not interested in technical copy on the physical properties of bearings. Neither are most top corporate officials.
>
> Nevertheless, purchasing agents and many other officials felt they did not know enough about bearings.
>
> Design engineers are interested in more technical copy. But they prefer ads that tell them what's new in bearings rather than ads that describe their properties in great detail.

Above all, the survey showed that no single ad approach would do the job SKF needed. To differentiate its client's products, Basford found it had to differentiate its audiences. Result: In addition to straight product ads, which run in 15 vertical business papers plus two horizontal equipment magazines, Basford designed four special campaigns to reach special audiences:

1—purchasing agents
2—replacement market
3—design engineers
4—top management

For Purchasing Agents, a Zany Dog

Basford and SKF both felt that a radical approach was needed to reach the purchasing agent.

"This is almost a consumer-type audience," says Hynes. "So we looked around for something eye-catching, heart-warming, highly recognizable. We considered using a child in the ads, but somehow we felt it should be something a little more zany. We chose the dog instead."

SKF's affable St. Bernard turns up in many zany situations. One ad

pictures him dragging the SKF salesman along on roller skates; in another he is fondly snuggling up to a lady on a train.

The same man always appears as the SKF salesman in all of these ads, and he always has his arms full of SKF bearing boxes. If these boxes were full of bearings they'd weigh over 100 pounds—an impossible load. But this doesn't bother the SKF ad men at all. Neither does the fact that the St. Bernard dog has no connection with the company. What does impress SKF ad manager Frank White is the way customers greet the salesmen. "Where is your dog?" many ask. Or, if it's a hot day, "Why don't you bring your dog in for a drink of water?"

"Of course the salesmen love this," says Hynes. "And more important, it gives them a fresh entree for the product story."

In the replacement market, SKF faced another special situation which required its own special treatment. For replacement, all bearings are sold through distributors. The market includes every kind of factory, and the buying influences include the whole buying team.

For this situation, Basford designed an educational series featuring "Distributor Dan"—a clean-cut cartoon character with a Frank Sinatra smile. In this year's ads, Distributor Dan explains such bearing problems as overheating and what can be done about them. Each ad uses a half-dozen drawings to illustrate the problem. Ads are running in three horizontal factory management magazines, and three vertical magazines for the rock, coal, oil and gas industries.

To further bolster the growing replacement market, SKF has formed an eight-man "Distributor Advisory Council." Eight distributors meet twice a year with SKF's three top sales executives to exchange ideas on how to improve marketing. Advertising is one of the things discussed at these meetings: how well it serves distributor needs; how well it serves customers as the distributor knows them; how it could be improved.

The eight distributors are each featured individually in an ad series running in *Industrial Distribution* magazine. The ads focus on the men's unusual activities, such as flying and raising beef cattle. SKF also runs these ads in a local purchasing paper of each distributor's choice.

Bizarre News for Designers

Basford's survey indicated a new approach to design engineers also. Previously, SKF had been running product ads in design engineering magazines. The survey showed that design engineers were more interested in current developments in bearing manufacturing.

Result: Basford produced a campaign with emphasis on the new, the exciting, the bizarre. One ad in this series, for example, tells about a machine that translates infinitesimal bearing noises into symbols so they can be seen. Illustrations are tasteful, four-color semi-abstractions. The series runs in five design engineering magazines, two engineering production papers and two iron and steel industry magazines.

Finally, SKF overhauled the corporate campaign that it had been running for some 30 years. Until 1960 this campaign used the same type of four-color, semi-abstract ads that are now used in design engineering magazines, but with very brief copy. Their main purpose was merely to increase recognition for SKF.

Showing Management the Future

This year it redesigned the corporate campaign to put more service and excitement into it. A typical ad running on October 3 in *Business Week* featured a two-page picture of a futuristic jet liner which, five to seven years from now, should be carrying passengers from New York to Los Angeles ". . . with just time for coffee."

"Our main concept in this campaign is to link bearings with exciting technical developments of the future," Hynes explains.

What effects have these four revamped programs had? The design engineer and top management campaigns are still too young to judge—the first started only last summer and the second this fall.

Readership scores on other ads, however, have been impressive—especially in the offbeat purchasing agent campaign. In issues of *Purchasing*, surveyed by Starch, the affable St. Bernard dogs drew scores of 36 and 41 per cent "noted"—23 and 28 points, respectively, above the median. An SKF "man and dog" ad received one of the four highest "noted" scores for single page ads in *Purchasing* during 1958 and early 1959.

In a buying-action study conducted by the now defunct *Purchasing News*, the SKF series got the highest action score of any ads surveyed. "Action" means that a reader contacted the advertiser or the advertiser's sales representative. SKF ads got almost twice as much action as any of the other four bearings advertisers in the magazine.

Distributor Dan, the hero of the replacement market campaign, has also drawn high ratings. A Mills Shepard report on *Mill and Factory* magazine in February gave SKF 56 per cent "remembered having seen," 31 per cent "read partially," and 17 per cent "read thoroughly." Median ratings for ads in that issue were 30, 19 and eight per cent, respectively.

To check further the effectiveness of the ads, Basford conducted another market survey early this year. "In almost all cases," says Hynes, "the survey supported our own belief that the new SKF ads are on the right track."

45 Metals Makers Battle for the Retail Sale*

BY BUD REESE†

The nation's metals producers are waging a widespread promotional battle. Their battleground ranges from business papers to general magazines to television—with skirmishes in other media.

The objective of the metal makers: to convince everybody in the distribution channel—from the immediate customer to the wholesaler to the retailer to the ultimate customer—of the merits of their respective metals.

In the February 6th issue of the *Saturday Evening Post*, for example, are four, full-color ads by Republic Steel, Inco Nickel, Sharon Steel and National Steel. Not one of these companies makes consumer goods; yet there they are, advertising pots and pans, outdoor grills, ranges, kitchen sinks, toasters, coffee pots, auto trim and tin cans.

The reasons for this reckless advertising to the public become clear in a statement by Bay E. Estes, marketing vice-president of United States Steel Corp.:

> A woman in a department store, pausing in doubt between a kitchen cabinet made of steel and a kitchen cabinet made of wood, is facing a decision which multiplied some thousands of times, can actually affect our mill schedules. If she chooses the wooden cabinet, it means one steel cabinet not sold; it means less steel cabinets sold by the fabricator—and possibly a lower demand for steel sheets from which those cabinets were made.
>
> This is a negative chain reaction that can be reversed, or at least moderated, only by *marketing in depth*—by applying the many tools of merchandising and marketing at every logical point throughout that channel of distribution, from the primary customer who bought our steel clear through to the home furnishings floor of the department store.

So why this "marketing in depth" thing all of a sudden. Sure, basic materials producers have been doing consumer advertising for a long time (Armco ran an ad in the *Saturday Evening Post* in 1914), but most of this was for corporate image grooming and stockholder solicitation. Also, the volume didn't begin to reach that of the last few years; and

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† *IM* Associate Editor.

there wasn't this emphasis on integrated (hitting *all* levels in the distribution channel) customer support. Why are "marketing in depth" and "integrated customer support" so important today, when they weren't, say, five to ten years ago?

The Materials Revolution

The answer consists of just two words, "materials revolution." What Mr. Estes said is that the materials revolution has knocked the traditional methods of marketing steel into the proverbial cocked hat.

The American Iron & Steel Institute was referring to the materials revolution when, in a booklet sent to its members early this year, it stated, "Our economy is in the midst of a tremendous effort to improve standards of living, to create new markets. These markets will be shaped by new technology, new materials and new habits of living. The eventual success of this effort can be aided and accelerated by the steel industry; or, it can be achieved by competitive materials at the expense of steel.

"Nearly one-third of all steel produced in the United States goes into consumer goods. For much of its wants, the public can decide to buy a product made of steel, or a product made of a competitive material."

So, the point is that steel is no longer the uncontested basic material for most every need. Aluminum, ceramics, concrete, copper, glass, laminates, paperboard, plastics, rubber, wood, etc., are finding new markets. And although steel's competitors have yet to capture any real mass-tonnage markets (most lack the capacity to do so), they're keeping up a constant nagging pressure—and scoring annoying break-throughs.

The steel industry's problem was more colorfully stated by a steel industry executive who said, "The steel industry is like a dog with fleas, and the competitive materials are the fleas. The fleas aren't about to seriously injure the dog, but they're getting bigger, they bite harder, and there are a lot more of them. We're doing a lot more scratching lately."

Marketing in Depth

So now, in addition to the traditional intra-industry competition (U.S. Steel vs. Inland, etc.) the steel makers must also fight off the other materials on a grand scale. And the best way to do that is by "marketing in depth," by selling their immediate customers, their customers' customers, wholesalers, retailers, all the way down to the ultimate consumer.

But, if this is true for the steel companies, it must also hold true for the other materials producers—and these other companies know it. In aluminum, to cite just one industry, producers also are extending their advertising and sales promotion efforts down to the retail level. But, they're doing it in an interestingly different manner.

The purpose of this article is to describe the various marketing-in-depth methods, and to give representative examples.

Company vs. Industry Approach

In theory at least, the basic materials producers use three distinct approaches to sell all levels of the distribution channels. They are:

1. *The "every-man-for-himself" approach* . . . The aluminum companies are using this approach, Alcoa being the prime example. Here each company develops its own consumer and trade advertising, works up its own labeling program, etc. Each producer promotes the merits of products made of *its* brand of aluminum.
2. *The hallmark approach* . . . The steel makers' approach is similar to that of the aluminum producers, with one very important exception. Although each company plans and places its own ads, they all use (again, in theory) the Steelmark, a "brandless" hallmark for steel, somewhere in their ads. This Steelmark (see below) was originated by U.S. Steel and now is the property of the American Iron & Steel Institute. It ties all the ads of all the steel makers together, and thus greatly increases the over-all impact for steel. The companies also use the same label, which features the Steelmark.

Steel Mark Emblem

3. *The association approach* . . . This technique is being used by the copper mining companies and brass mills, through the Copper & Brass Research Association. Everybody chips in and the association plans the advertising and labeling campaigns. No individual company names are mentioned in either the ads or on the labels.

Here are the details on each of these representative campaigns:

The U.S.S. Program

The United States Steel Corp. first ventured into consumer advertising in 1939, but it wasn't until 1954 that it established a true integrated customer support program. That was the first year of its now-famous, extremely-successful "Operation Snowflake."

And although it conducted other integrated programs (aimed at boosting sales for gas and electric appliances, steel kitchens, bedding, bridal shower gifts, outdoor furniture, stainless steel flatware, canned foods and soft drinks, etc.) Snowflake remained U.S. Steel's major integrated support program until 1958.

1958 was the year of the "new look" at U.S.S. Alfred Politz Research had conducted a study to find out what the general and business publics thought of steel, of products made of steel and of U.S. Steel. The finding was that the public associated steel with machinery and construction—and not with the fashionable durable, they were buying for their homes. Steel, Politz found, was considered heavy, durable, but expensive.

The general public was ripe for a consumer durables invasion by materials the public considered more fashionable and less expensive, such as aluminum or plastic.

Politz also discovered that although people recognized the corporation, few identified its affiliates as belonging to U.S. Steel. They knew Cyclone Fence, for example—but Cyclone wasn't getting the benefit of its association with the corporation, as far as the public was concerned.

This was particularly disturbing in the light of another finding: people don't dislike bigness—in fact, they figure that the bigger you are, the better your products. Long beset by attacks on its bigness, U.S.S. had been playing down its size.

Five-Point Program

As a result of these findings, U.S. Steel and its agency, Batten, Barton, Durstine & Osborn, developed its five-point new look program. The new look included:

1. *New ad theme* . . . A new advertising theme emphasizing that "Today's U.S.S. Steels Lighten Your Work . . . Brighten Your Leisure . . . Widen Your World."
2. *A new label program* . . . The labels were offered to manufacturers of consumer products to identify clearly all items made of steel irrespective of whether it was U.S.S. steel. The label featured the Steelmark.
3. *A restyled U.S.S. trademark* . . . Because the public liked bigness, it was to the corporation's advantage to be identified with all affiliates. The image of U.S. Steel would be transferred to the subsidiary, and the good product image of the subsidiary would redound to the corporation's benefit as a whole.

   Lippincott & Margulies, industrial designers, came up with a new, modern trademark, which is used by the corporation and all affiliates.
4. *An identification program* . . . A uniform identification system was developed to more clearly interrelate the corporation and its affiliates.
5. *"Steel Plus"* . . . An advertising program beamed at direct users of steel, featuring U.S. Steel's special marketing assistance (the customer support program) as well as its metallurgical, research and facilities services.

Consumer Products Promotion

At the same time, U.S.S. also launched the "second phase" of its promotion for consumer goods made of steel.

Because of the consistent success of Operation Snowflake, this major appliance promotion at Christmas time was continued unchanged. But, the other vertical market promotions (kitchen, housewares and bedding) were absorbed in a new campaign designed to stimulate the sale of all products of steel through a national marketing program emphasizing the valuable properties of "today's versatile steels."

Under the new program, ads with the "Lighten . . . Brighten . . . Widen" theme were run in the *Saturday Evening Post* and *Time* and on the "U.S. Steel Hour" on the CBS television network. Trade ads, mer-

chandising the consumer ads and urging dealers, manufacturers, etc. to tie in with their own ads, also were run.

In addition, promotion materials were made available to utilities, banks, distributors, retailers, etc., and a newspaper service was distributed to daily newspapers and to the 4,000 subscribers to Metro Newspaper Service. The service suggested news features and ads to be used locally.

Operation Snowflake

Here are the details on this highly-successful, many-faceted campaign: Its purpose was, and is, to help U.S. Steel's appliance manufacturer customers raise their low December sales curve by using and publicizing the slogan, "Make It a White Christmas—Give Her a Major Appliance." Using magazine, newspaper, radio (six daytime commercials), television (six commercials on the "U.S. Steel Hour"), point-of-purchase displays, business paper and direct mail advertising, this program offered manufacturers, distributors, dealers and salesmen of major home appliances a chance to identify themselves and their products with a national campaign.

Imagine the impact: U.S.S. and the manufacturers promote major appliances on a national level. This means dozens of ads on tv, radio, in consumer magazines, newspapers, etc.

Then, prompted by U.S.S.'s and the manufacturers' trade advertising (and their own good sense), retailers, utilities, banks, etc., promote major appliances. They use the same theme, the same selling message. This means hundreds of local newspaper, radio and tv ads.

All this at the same time, Christmas, with everybody in a spending mood. A lot of major appliances are sold. And it takes a lot of steel to make all these major appliances.

Steelmark

Just after U.S. Steel announced its "new look," it hit upon an idea to greatly increase the effectiveness of the merchandising mark used on its labels.

It decided to invite all steel makers to put the Steelmark in their ads and on their labels. This would put so much promotion behind the labels that end product manufacturers would have a hard time passing up using them.

Also, the Steelmark would identify each producer's advertising with that of the others, and the over-all impact of the steel companies' advertising would be tremendously increased. Remember, people like bigness.

The other steel makers balked. They felt that the design of the Steelmark, the three diamonds enclosed in a circle, was too similar to the new U.S.S. trademark, the U.S.S. initials enclosed in a circle.

To try to convince the unbelievers of the inherent promotion power

of the Steelmark, U.S. Steel promoted it to 80 million consumers a month via the *Saturday Evening Post*, *Life*, the "United States Steel Hour," and daytime tv all through 1958 and '59. Over 400 manufacturers began using the Steelmark labels and about 25,000 retailers sent in for Steelmark merchandising kits.

AISI Takes Over

The other steel makers were convinced. And at a January meeting of the American Iron & Steel Institute, they decided to go along. The only change was that the mark is now the property of AISI, which will police its use both on labels and in ads.

While it's still too early for measurable results, most of the steel producers at the AISI meeting indicated that they will use the mark in their advertising and promotion. Inland Steel's ad manager, Dick Killelea, predicted, "You'll be seeing a lot more of the Steelmark from now on." If he's right, the over-all impact will be impressive indeed.

U.S.S. 1960 Program

U.S. Steel Corp.'s 1960 integrated customer support program is little changed from that of '59. It will continue to promote the Steelmark and the "Lighten, Brighten, Widen" theme in all its horizontal consumer advertising. It will also expand the vertical consumer products program to include, in addition to Snowflake, campaigns for canned soft drinks, innersprings, housewares and home furnishings, office furniture, home modernization and automobiles.

The Alcoa Campaign

Of the many materials competing with steel, the most aggressive is aluminum.

And while steel men are fond of pointing out the gap between the Jan. 1 rated aluminum capacity of around 2.4 million tons a year and the steel industry's current rated capacity of about 148.6 million tons a year, they also know that aluminum capacity, spurred by defense needs, has increased over 300% since the end of World War II. Steel men are also well aware of such comments as the one made by C. H. Patterson of Ford Motor Co., who said that by 1963 the average passenger car will contain 100 to 120 pounds of aluminum. (The average late-model car contains about 60 pounds.)

Big Steel vs. Big Aluminum

Symbolic of this rapidly increasing competition between the steel and aluminum industries are the U.S. Steel and Alcoa buildings in Pittsburgh. Located just a "stone's throw" apart ("None have been thrown yet, but . . ." said one ad man), these two buildings are constructed, both inside and out, almost entirely of their respective materials.

They're about the same size, and to the passerby, Big Aluminum is every bit as large as Big Steel.

But you needn't travel to Pittsburgh to see the signs of the U.S.S. and Alcoa battle for the retail sale. Just page through a consumer magazine or turn on your tv or radio set. There's plenty of evidence that Alcoa also realizes the importance of integrated customer support.

Company First

The Aluminum Co. of America started its integrated customer support program about four and a half years ago. According to Alcoa's advertising manager, T. M. Hunt, and advertising promotion manager, Jay M. Sharp, the Alcoa program preceded that of U.S.S., which, they say, copied their program. U.S.S. advertising director John Veckley and his assistant, Harold Hoffman, believe Alcoa copied U.S.S.

But, regardless of which was first, the programs are quite similar. Actually, they differ in only two significant ways:

1. Whereas U.S.S. consumer advertising promotes products made of steel, playing down the company identification, Alcoa advertising promotes products made of *Alcoa* aluminum. U.S.S. promotes the unregistered Steelmark, and asks other steel makers to use it, too. The Alcoa company logo and registered trademark are boldly displayed in all its advertising.

   The reason for this is obvious· Alcoa's intra-industry competition is right on its heels. U.S.S. can afford to be altruistic.
2. When U.S.S. promotes a consumer product, it makes no mention of the product's manufacturer. Alcoa names the manufacturer, who must be an Alcoa customer.

The Alcoa 1960 integrated customer support program is composed of four separate programs: Forecast, Market Maker, Added Values and the label program. Agencies involved are Fuller & Smith & Ross; Ketchum, MacLeod & Grove; and Wentzel, Wainwright, Poister & Poore.

Market Maker

Alcoa's Market Maker program is aimed at supporting the seven major markets of its key customers who manufacture consumer durable goods. These markets are hardware, boats, cookware, furniture, sporting goods, residential building products and Christmas gifts.

These year-'round campaigns are accurately timed seasonally and for the most efficient use of Alcoa's field promotion men (the company has 18 throughout the country). These men keep customers, dealers and the company's own salesmen updated on the manifold advertising and promotion programs.

Major media used in the Market Maker program are tv and radio; the first because Alcoa feels tv's cost per thousand is lowest of all sight media, and the second because Alcoa feels radio's cost per thousand is lowest of all media.

Half the commercial time on Alcoa's two tv shows, "Alcoa Theatre" and "Alcoa Presents" is devoted to supporting its customers. Total audience is 47 million viewers a month.

Alcoa's spot radio reaches another three million listeners a week.

In these media, Alcoa pushes its individual customer's products by name. Customers who have established distribution outlets are allocated television commercial time on an equitable basis commensurate with their purchases of Alcoa aluminum. Smaller customers with regional distribution are supported by local and regional radio and tv spot commercials.

In addition to the consumer push, every Market Maker promotion includes trade advertising to inform the customers' dealers and distributors; and p-o-p displays to give the dealers concrete evidence that their retail selling efforts are supplemented.

One of Seven

The 1959 "Market Maker" promotion for the residential building market, to cite just one of the seven, ran from Oct. 1 through Dec. 31. It consisted of 80 five-minute vignettes on "Monitor," commercials on "Alcoa Theatre" and "Alcoa Presents," 12 four-color ads (six in *House & Garden* and six in *Sunset*), 11 four-page ads in *House & Home, American Builder, American Lumberman & Building Products Merchandiser, Practical Builder,* and *Building Supply News;* technical folders on building products; colorful mobile p-o-p displays, and tailor-made showroom displays.

Forecast

This is Alcoa's consumer print media campaign.

These ads feature the combined work of leading designers and outstanding photographers who depict aluminum's future application for the home of tomorrow. Objective: to prove aluminum's natural beauty and utility.

Theme of the ads is, "There's a world of aluminum in the wonderful world of tomorrow . . ." Both the company symbol and name are prominently displayed.

"Forecast" has put dream thinking on a practical level. Aluminum users learn more about creative design; designers see what can be done with aluminum; and the general public learns of the beauty and versatility of aluminum and of Alcoa's role as the prime developer of the material.

The first "Forecast" ad featured a ball gown, a woven aluminum job. Aluminum yard goods is now widely used in bathing suits, cocktail dresses, etc. Then came an aluminum yarn rug, which led to the adoption of an aluminum line by several carpet makers. The famous Paul McCobb "Forecast" chair is now in production, as is a shelved room-divider designed by Alexander Girard.

Other designs which have stirred up interest among manufacturers in-

clude the Noguchi hexagonal table. Don Wallace's porcelain enameled tableware, a wall mosaic by Ilonka Karasz, and David Aaron's playground fixtures.

Forecast designers have been besieged by manufacturers to explore new ideas for them. Thus, these designers have not only been influenced toward aluminum, but the program also stimulated other designers.

This is in addition to the favorable effect of the program on the general public. A recent survey showed that eight out of ten American shoppers recognize the Alcoa symbol.

Added Values

This is Alcoa's program for merchandising its other programs to prospects. "Added Values" ads appear in *Business Week, Purchasing, Iron Age* and *Wall Street Journal.* These ads point out that in addition to the advertising and sales promotion help Alcoa gives its customer, it also offers "unparalleled research and development experience, technical know-how . . . ," etc.

CABRA

The nation's copper mining companies and brass mills work through the industry association, the Copper & Brass Research Association, New York, to market in depth.

The most widely known of the CABRA campaigns is its "Copper Goes Modern." Each full-color ad is based on one wide area of copper's use, with the series covering such fields as communications and transportation. Both art and copy work to create a colorful modern image of the age-old metal. Agency is J. M. Mathes, New York.

Publications used include the *New Yorker, Business Week, Scientific American, Iron Age, Steel, Production Engineering, Electrical Manufacturing, Machine Design, Materials in Design Engineering, Industrial Design, House & Home, Architectural Record, American Metal Market* and *Daily Metal Reporter.*

Trade Program

Most of CABRA's customer support effort, however, is aimed at the trade. Purpose of this campaign is to "make solid copper and brass (as well as bronze and nickel silver) a positive selling force for the manufacturer."

The key word is "solid," meaning that the product is wholly or predominantly made from the copper metals. The idea, said A. C. Leiriao, the association's consumer product specialist, is to distinguish the "real McCoy" from the plated or anodized variety which "purport to offer the same quality and service for a lower price. This is particularly important," Mr. Leiriao pointed out, "in these days of self-service retail stores."

The trade ads appear in the business papers which reach wholesalers

and retailers in the following fields: small appliances and cookware, marine and fishing equipment, lamps and lighting fixtures, home furnishings and giftware, hardware and plumbing products.

A typical ad, in *Hardware Consultant*, reads, "For every decor, every taste, every budget . . . Solid Brass. The glowing, golden tones of brass and bronze enrich a room, home or building like no other material can. They blend beautifully in traditional decors . . . they warm up modern architecture . . . they add character and dignity."

The industry label appears in each ad, with the accompanying, "To identify and help you sell solid brass (or copper, bronze, or nickel silver) products, ask your suppliers to use this label." The ads are prepared by Paul Smallen Advertising Agency.

The labels are supplied free to domestic manufacturers.

More to Come

What of the future of integrated customer support programs by basic materials producers? The fact that marketing in depth is here to stay is attested to by the following statement of Richard F. Sentner, executive vice-president-commercial, U.S. Steel Corp.:

> Until recently, many companies in the American manufacturing cycle, including my own, conceived of their function as ending with the production and sale of their own product to their own immediate customers. Today, however, more and more segments of our business community are coming to recognize that the only point at which the real sale is made is when the ultimate consumer exercises his 'right of selection' and makes his decision to buy a particular end product . . .
>
> We realize, for example, that unless the consumer elects to buy a product made of steel, our chance of selling steel is remote.

46 Prescription for a Marketing Program: Build Up the Retailer*

Many dealer-training plans suffer by virtue of the fact that they are just sales messages for manufacturers. Johnson & Johnson put a Band-Aid on this approach, with happy results for all concerned.

"In serving those who sell our products, we serve ourselves." That's Johnson & Johnson's attitude toward its retailers. And

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this week, J&J (Band-Aid, adhesive bandages, baby powder, etc.) marketing executives were laying the groundwork for still another of the self-help projects in their "store-wide improvement services" program.

The program consists of what can best be described as training courses in critical areas of drugstore operations. So far, it has cost J&J more than a million dollars in production and presentation costs. The company considers the money well spent, for it has produced a number of benefits, not least of which is achievement of the primary objective: more efficient drugstores, and the increased volume (for all manufacturers) that better stores tend to build.

The program began with the introduction in 1949 of a sales-training project for druggists and their salespeople. In 1953, J&J offered a course in how to modernize store interiors, and added to that a course in how to promote the store's traffic (to build volume, which would help pay off modernization costs). A store-front modernization project was introduced in 1955. And this year the company gave drugstore operators the newest do-it-yourself kit, on stockroom modernization.

Although the program is only 11 years old in the stores, it was preceded by four years of painstaking preparation. The company has taken time with each program, to make sure that it produces what drugstore operators really need, and in a form that makes it easy for them to use it.

On the face of it, the program is not new. Others in various fields have undertaken retailer-assistance programs, some quite helpful. In the drug field, many wholesalers, including McKesson & Robbins, the biggest wholesaler in the world, have gone whole hog—actually helping drug retailers to finance store modernization.

In the instructional area, there appears to be one basic difference between what Johnson & Johnson is doing and what most others have done. That difference might best be summed up as the difference between a sales promotion gimmick and a program that is part of a sound, long-range marketing plan.

Other manufacturers have conceived dealer training programs, manuals and the like as sales message carriers. J&J has held the use of its name and its products to the irreducible minimum necessary for identification and—where necessary—for illustration. The focus never wavers from the key point: helping the retailer improve his store.

It is no coincidence that the Johnson & Johnson program resembles (albeit on a much more modest scale) the dealer-training programs of durable-goods producers such as auto and appliance makers. The originator of the J&J program, W. E. Sawyer, began his business career at General Electric, where he was an advertising and promotion executive before joining J&J as director of promotion late in 1945, after time out for war-time service with the FBI. He is now director of merchandising services.

At Stake: Salesmanship

Sawyer felt, and the company agreed, that growing post-war competition would endanger many drugstores, frequently run by men who were often more interested in being good pharmacists than astute businessmen. Of immediate concern was the state of salesmanship in drugstores.

Retailers had come out of World War II with what might be called the seller's market syndrome, a state of mind in which retailers (or, more often, their salespeople) feel that the consumer should consider himself lucky if he is even allowed to enter a store. The market was changing, the nature of distribution outlets was changing, and it was obvious that inefficient drugstore operation would hurt both the drugstore and the manufacturer, by holding down volume for both.

A program that could give the druggist real help in recruiting and training his salespeople would help remove the curse of the seller's market syndrome. It could put th drugstore in a better position to compete with other more efficient retail outlets.

Sawyer embarked on a vast one-man research program. He enlisted the unpaid help of retailers, wholesalers, management consultants, trade press editors and educators in an attempt to design an effective sales-training program. His examination convinced him that to be successful, any dealer training program would have to be:

Prepared in such a way as to build confidence in small businessmen who might doubt their ability to carry out important programs;

Flexible, taking into account the different kinds of druggists to whom it was addressed and the different sizes and kinds of stores they operated. It would be impossible to force all into one mold;

Objective. Any attempt to use the program as a vehicle for carrying a sales message was certain to arouse cynicism in storekeepers already bored by such sales promotion gimmicks.

The plan was to introduce the program by showing the sales-training film at conventions and local meetings of drugstore associations. The printed manuals were to be delivered to stores by the company salesmen, who would also work with their customers in putting the lessons of the program to work on their individual problems.

The Salesman Is Crucial

Johnson & Johnson salesmen are sales and merchandising representatives. They take orders and work with retailers on displays and other in-store problems. The new program would add to an already heavy work load for these salesmen, crucial figures in the new plan. This problem was solved and the support of the sales staff assured through an educational campaign that made two points to salesmen:

1. *The training program is not a gimmick.* It is a long-term project, an unselfish program that could admirably serve the interest of the druggist and, indirectly, the company.

2. *It is an exclusive service* which should reinforce the position of the salesman with his customers.

When the sales-training program was ready, Johnson & Johnson was permitted up to three hours to make its presentations at various association meetings. In addition, it organized showings of its own for storekeepers in five areas—and was almost swamped by the response.

In Milwaukee some 1,500 druggists and salespeople filled rooms on three floors of a big hotel for the presentation. In all, 250,000 saw the presentation, which included the sales-training movie. In some cases, films of the Tony Zale-Rocky Graziano middleweight boxing championship bout were shown and Zale (then champion) talked about the importance of training and preparation for success—in the ring or in retailing.

There were side effects. In some localities where there were no local associations of pharmacists, meetings called by Johnson & Johnson to show its sales-training program led to development of local associations.

The special meetings that the company organized separately required too much time of participating marketing executives. They were eliminated, and programs then were introduced solely through presentations at association meetings.

Help from Trade Experts

That has been the only change of consequence. Sawyer has continued to develop the various projects with painstaking care and volunteer help from trade experts, including two trade press editors: Dan Rennick, editor of *American Druggist*, active in much of the planning and preparation; and Louis E. Kazin, editor of *Drug Topics and Drug Trade News*, who is general program consultant (unpaid) on editorial and professional content. The consultants help select each project, then contribute to its development.

An unexpected but welcome development has been the use of Johnson & Johnson materials by other companies and industry groups that have adapted them into programs of their own. Most recently, Bell & Howell prepared a "Camera Specialty Dealer's Guide to Marketing," with the help of some ideas from the J&J material.

The company welcomes any move to strengthen retailing operations. It plans to continue its own improvement services program as long as there is a need for it. Presumably, there will always be a need for dealer assistance as long as J&J operates on the credo of its founder, chairman R. W. Johnson: "In serving those who sell our products . . . we serve ourselves."

47 What's Happened to Salesmanship?*

Mass selling techniques are changing the salesman's role. What's happened to salesmanship?

Many consumers—and businessmen—are asking this question.

One customer has bought three compact cars of the same make within the past year. The first was bought as a family car. He later decided to put his family on a two-car basis, and finally invested in a third car for his son.

No car salesman had contacted him before his first purchase. No salesman followed up any of the purchases to try to make another sale or inquire if his friends or neighbors might be prospects. The salesman from whom he bought, in fact, seemed to show little interest in making the sales.

Consumers across the country report similar experiences as they buy automobiles, appliances, clothing, and other consumer goods. They feel that they are not being sold as enthusiastically as they once were.

Secretary of Commerce Luther H. Hodges, who has acquired a reputation as a salesman himself, underlined the problem at a press conference:

"If you really want to find out what's wrong with this country, then you ought to see how little activity we have in trying to sell.

"Just go to a hotel and try to get a room. They may have plenty of rooms, but they make you think they are doing you a favor by letting you come in. They even hide the registration cards.

"Go to a railroad and try to get some courteous treatment in buying a ticket or asking something—or even go to the airlines.

"Go anywhere where things are being sold, and you will find they are not doing a half-job in this country."

There are exceptions to this indictment, but businessmen also are concerned. In the automobile industry, for example, an inventory of more than one million cars piled up. Marketing executives of the companies say that, in view of the great number of models and styles being offered now, a one-million-car inventory is not too large in a year when six million cars are sold. Production has been cut back sharply in recent months, however, and the inventory has dropped slightly.

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More than six million cars were sold in 1960, but a decline in sales this year casts serious doubt on the industry's expressed hope of selling another six million cars in 1961. Sales have begun to pick up, but the total still is running behind last year.

Current problems in selling automobiles and other consumer goods are the result of a number of factors. One of the most important is an attitude of consumer caution that was induced by an uncertain business outlook. Failure of sales to come up to expectations, however, is causing businessmen to take a closer look at salesmanship at the retail level. Is the salesman at fault for not pursuing the customer as aggressively as he did before World War II, or is the salesman a victim of changing marketing methods?

Three major factors stand out:

A revolution in marketing has placed increasing emphasis on preselling the consumer through mass advertising which by-passes the salesman and makes his role less important.

Today's better informed, more sophisticated buyer rejects the old-fashioned hard sell, forcing the salesman to use subtler techniques of persuasion.

The quality of salesmanship, across the board, has not kept pace with improvements in other aspects of marketing.

Marketing Revolution

"The retail salesman today is doing a different job than he did in prewar days," Stewart H. Rewoldt, professor of marketing at the University of Michigan, points out. "The manufacturer is much less dependent now on the retailer to stimulate a demand for his products.

"Greater use of mass advertising, backed up by marketing research, has resulted in more and more preselling, persuading the consumer to buy before he even goes to the store. In a broad sense, the retailer has become simply a depository of goods, performing the prosaic function of maintaining an inventory, arranging credit, delivering the article, and installing or servicing it.

"This situation has arisen, in part, by default. The manufacturer has wanted the retailer to do a better job of selling, but has by-passed him in order to boost sales as rapidly as desired."

This changing emphasis in marketing methods has produced sharply rising expenditures for advertising. During the past 20 years spending for advertising has gone up at a more rapid rate than our total production of goods and services. In the automotive field, spending for passenger car advertising in national media rose from $30.5 million in 1939 to $196.6 million in 1959.

Television has provided the manufacturer of consumer goods with a medium through which he can show his product in action and demonstrate its working features to a mass audience. This has taken a selling

tool away from the retail salesman, who used to have a monopoly on demonstrating the product. A customer who has seen a pretty girl open a refrigerator door on television will not waste much time in a store watching a salesman repeat the performance.

Preselling through mass advertising has, in many instances, reduced the salesman almost to quoting prices and accepting the customer's money. Presold customers help themselves to what they want and pay at a checkout counter.

Through preselling and his own investigation, the consumer has become better informed about the product he buys. He frequently finds that a salesman can tell him little about a product that he hasn't learned already from a careful reading of advertisements and personal checking.

With the customer already persuaded that he wants a particular brand before he even goes to the store, price becomes an important consideration. He goes shopping for the best price he can get, and a strong sales effort at one store often takes second place to a lower price at another. The salesman's role is further downgraded.

Preselling is an important force in selling automobiles. A Ford Motor Company survey indicates that three new car buyers out of four have already chosen the make they will buy before they enter the dealer's showroom. Only two per cent of these change their decision after shopping.

This has an effect on the auto salesman. When only a minority of his potential customers need to be persuaded to buy the make of car he is selling, the virtues of the product are eliminated as a basis for salesmanship. Many of his sales may become simply a matter of working out the details of the transaction.

This doesn't encourage vigorous salesmanship. It may lead to price competition with other dealers in the area, which often produces the sharp sales practices that crop up in auto selling.

Soft Sell

Despite these encroachments on the salesman's role, there are still broad opportunities for skillful salesmanship. Because of the growing knowledge and sophistication of consumers, good salesmen have found in recent years that the soft, low-pressure sell is much more effective than the traditional high-pressure technique.

"Selling has become very subtle," says Dr. Eugene E. Jennings, a consulting psychologist on business problems. "The good salesman today manipulates the customer's mind so that he doesn't realize he has been sold but rather feels that he has made a good friend."

This point is illustrated in the selling technique of two of the country's top automobile salesmen: Marty Daher, who has sold more Fords than anyone else during the past eight years, and Dick (Monty) Mon-

tanaro, who holds the title in Chevrolet sales. Both work for Detroit dealers.

Listen to Marty talking to a potential buyer:

"Don't worry about a thing. I'm acting as your broker on this, and I'll get you the best deal I can."

Monty says: "I sell three things to the customer. First and most important, I sell Monty. Then I sell service on the car he wants to buy and, finally, I sell the product."

Both men emphasize the importance of gaining the customer's confidence as the first step in making a sale. Both say that they never promise anything that they can't personally guarantee. Both work hard to see that the buyer is completely satisfied with his car.

"A sincere desire to help the customer is the key to selling," according to Monty, who was a university instructor in speech before he went into auto sales in 1956.

"High-pressure selling is on the way out. I tell a customer to take his time, go home and sleep on it and call me the next day."

He adds: "Nine out of 10 buy before they leave, anyway."

The success of this form of salesmanship is evident in the records of both men, who have sold more than 1,000 cars a year in their peak years. The average automobile salesman sells about 65 cars a year.

Marketing executives say that the soft sell often may result in the buyer feeling that he really hasn't been sold at all. But as Byron J. Nichols, general manager of Chrysler's Dodge Division and former Chrysler vice president for automotive sales, points out:

"He goes home in a new car."

Quality of Salesmanship

On the other side of the coin, marketing experts admit that salesmanship is not as good as it should be.

"We are certainly concerned with the problem of salesmanship, but believe we are making good progress in improving it," says James M. Roche, General Motors vice president for distribution and marketing. "During the postwar period, the American businessman lost some of the feeling of high respect in which the customer should be held.

"We must rely on the salesman to go out and do the job of selling. We cannot get along on the customers brought in by advertising."

Genaro A. Florez, president of the Detroit manpower development firm which bears his name, puts it more strongly:

"We are seeing the inevitable consequence of continuous neglect. We have been so preoccupied with technological improvement and with producing things that we have delegated the selling function to anybody who wanted to take the risk."

Recent surveys indicate that four out of five people who buy a car

have not been contacted by an auto salesman before making the purchase, and less than half of the potential buyers who visit a dealer's showroom are followed up by a later call from a salesman.

The neglected sales opportunities here are brought out by another study which shows that, of every two people who walk into a showroom, one will buy a car within two months.

The value of patience and persistence in selling—and the fact that a minority of salesmen show it—is illustrated by a study which indicates that the 10 per cent of car salesmen who don't give up after the third "no" from a customer make 80 per cent of auto sales.

A frequently cited factor in undermining the quality of salesmanship is the long sellers' market which followed World War II. With the Korean conflict intervening, the public's pent-up demand for new automobiles and other products was not really satisfied until close to the mid 1950's. Many of the current generation of salesmen got their start in this period, when being on the floor with an order book was about all the salesmanship that was required.

The subsequent change to a buyers' market caught many of them unprepared and untrained.

"World War II relieved the retailer of his selling function and made an order-taker out of him," Professor Rewoldt says. "He got out of the habit of selling."

Another point is brought out by John R. Sargent, of the management consulting firm of Cresap, McCormick and Paget.

"There are good opportunities in selling for the man who has initiative," he says. "Our trend toward security has made selling less attractive, however. It's a challenge that a lot of young people don't want to take."

To meet the desire for security, 15 per cent of auto dealers pay their salesmen a straight salary, in some cases because of unionization. Twenty per cent still retain the straight commission. The remainder have varying combinations of salary plus commission or commission plus guarantee. Marketing people debate whether departure from straight commission dulls incentive.

How can salesmanship be improved? This question is attracting increasing interest among businessmen. Companies are beginning to look harder for good salesmen and pay more for them. There is a growing emphasis on sales training.

"The big problem is recruitment of salesmen. Careful selection of those candidates with the most potential is the key to better selling," according to M. L. Van Dagens, director of sales training for Chrysler. "We find that you can't change a man very much after you've hired him. You have to choose the right one in the first place. A good salesman must have energy, intelligence, and like people. He must be a self-starter and hungry to get ahead."

The automobile manufacturers and the National Automobile Dealers Association are emphasizing to dealers the need for careful screening in hiring salesmen. Unfortunately, little research has been done on salesmanship and, except for trying to detect the qualities listed by Mr. Van Dagens, spotting a potential Monty Montanaro or Marty Daher is not easy.

"About all we can do in screening salesmen at this time is to eliminate the obviously bad ones," Mr. Florez says.

There are not nearly enough Dahers and Montanaros to go around, and companies are trying to teach basic sales techniques to the salesmen they have. During the past several years, the automobile manufacturers have set up training centers around the country to train dealership personnel in sales, management, and service.

The top salesmen need no help. They have set up their own small business units within the dealerships and are hard at work selling. Both Mr. Daher and Mr. Montanaro say that virtually all of their new customers are referrals, either from former customers or from "bird dogs" strategically located all over town at such places as gasoline stations and garages. Both maintain regular contact through card or letter with nearly 5,000 former customers.

Sales training officials agree that a big problem in sparking the other salesmen—who have less energy and less initiative—is instilling confidence and enthusiasm and teaching them to use their time efficiently in seeking most likely prospects.

Many salesmen, they say, have a basic bashfulness about telephoning or calling on someone they have never met. They also fear the customer's "no" and hesitate to bring their sales pitch to the point where the customer must make a definite answer.

Use of the telephone is emphasized in looking for potential buyers, rather than canvassing in person, to gain most efficient use of time. Contacting present owners of the car the dealer handles to find out if they or any of their friends are ready to buy is urged. Calling owners of competing makes in the same price range may produce a buyer. Opinion differs on the value of simply canvassing individuals selected at random.

Once a salesman has made several sales through the use of these basic techniques, training authorities say, his confidence and enthusiasm zoom and he's a better salesman.

Another deterrent to better salesmanship, according to marketing people, is that too few sales managers give adequate help and direction to their salesmen. Often the sales manager lacks ability in managing and training his personnel, and too many sales managers busy themselves with other duties which are less productive. This is a weakness which current training programs are trying to correct by teaching the sales manager as well as the salesman.

Despite the problems which have affected salesmanship, the emphasis which the current buyers' market has placed on sales techniques appears likely to produce better salesmen in the future.

48 Sighting the 20% That Buy 80%*

Sales redirection at Cummins-Chicago has put the emphasis on the few that buy the most, with zooming sales records resulting. No longer left to ponder who looks good, C-C salesmen make calls that count—backed by pinpointed market tests and ads.

In six years, Cummins-Chicago Corp. sales have risen more than 95%. The reason: a sales control system that narrows down prospects within an industry to about 20% of the establishments concerned—buying approximately 80% of Cummins' type of product, invoice canceling and perforating equipment. In addition, the system enables Cummins to pinpoint people who actually buy as well as those who can influence the purchase.

Although the value of perforating equipment to industry in general had been obvious to the 71-year-old company's marketing men for many years, the big questions had been: (1) what kinds of businesses do we sell and (2) whom do we reach within each company—who is the right man to call on?

"Cummins-Chicago's situation was similar to that of many companies seeking an improved sales control system," says Warren Segersten, director of marketing. "Traditionally, home office sales control is based upon information furnished by the field organization. Of course, most salesmen conscientiously report the establishments in their territory which they feel make up their best prospects. Unfortunately, this kind of information may be, and often is, either incomplete or inaccurate. A salesman is a busy man. The harder he works, the more he is likely to create a group of 'good customers' who take his time and attention."

"The net result," continues Segersten, "is that the man to be controlled sets up the basis upon which he is controlled. And, time after time, a territorial analysis reveals many important prospects whom he is not contacting."

Cummins' ad agency, Waldie and Briggs, developed the sales control

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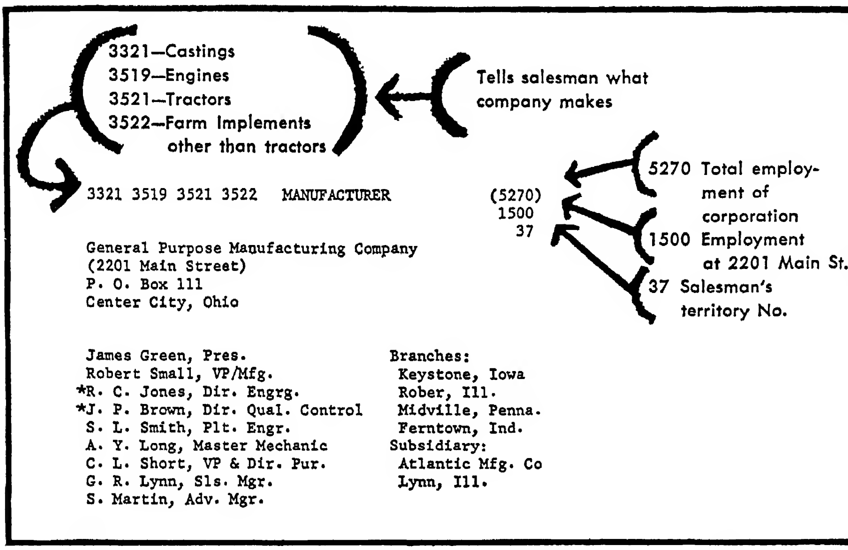
system for its own industrial clients some 17 years ago. It is based upon the Government's Standard Industrial Classification which groups establishments into 2-, 3- and 4-digit industry divisions. While an establishment is classified, for Government statistics, in only one 4-digit group according to its major activity, the agency facilities develop as many as four or five different 4-digit classifications for it if it is involved in that many businesses. "This is important," says Segersten, "it's not

A Profile of Prospects and Customers



* Individuals whom the salesman must contact. They are the most important decision-making elements for his particular product.

In some cases, where practical, branch plants and subsidiaries are listed. These are omitted where listing is long.

specifically companies that we're after, but establishments—each plant differs, even within one company."

An example of this would be the manufacturer of diesel engines and fork lift trucks. SIC listings place this producer under only one of these two possible classifications because Government primary classifications can count a given establishment, or plant, only once. The Government employee decides what the major activity of that establishment is and applies that particular SIC number. The fact that this manufacturer operates a large grey iron foundry (and hence is a prospect for still other products) would not be recorded in primary SIC listings.

Another manufacturer, for example, is an important producer in 10 or 12 different industries. The SIC classifications list each separately under the appropriate number. However, the general office of this company, which controls the major portion of the buying power of each plant,

is not directly identified with any of them, but instead is classified as an administrative office of a manufacturing company.

"Here's a typical fact brought to light involving SIC 3583," says Segersten. "It covers sewing machines. Research has revealed that 6% of the manufacturers of sewing machines buy 80% of all industrial products sold to that particular industry. Similar revelations have come out in most industries across the country.

"What it means," he adds, "is that, for all practical purposes, roughly 20% of all manufacturing establishments will make, again roughly, 80% of all industrial purchases. Of course, these figures vary with the industry, but the broad picture indicates that this estimate is correct.

"Cummins is working from an extremely broad and well developed system which utilizes purchasing breakdowns. The agency's master sales control file uses salesmen's records from all its clients in maintaining a monthly profile of industrial clients across the country. So far, it's performed to within 1% to 2% accuracy.

"A card is kept on each prospect or present industrial customer for virtually any product. Names of key executives and/or those who influence purchases are recorded on this card and augmented by regular reports from salesmen in the field. Corrected cards go out in an endless stream to all client companies and sales forces, of which Cummins is one. Over the years, the master file has produced a formidable stock of accurate, updated information—indicating, as we've discussed, the very interesting and vitally important 20%–80% relationship."

"Now, we're identifying a larger percentage of high potential prospects," adds William Klotz, Cummins' sales manager, "as well as isolating key buying influences in prospective plants."

Segersten points out that the sales control system encourages concentration of sales calls where they can do some good, reducing wasted calls.

"Actually, it makes repeat calls more acceptable to salesmen since they have something to talk about. They know what this prospect is going to need because Cummins limits prospects to establishments employing 500 or more people. We decided to do this after it had been proved that plants employing this number could be expected to have sufficient paper work to be, initially, the best prospects for Cummins' products.

"Incidentally," adds Segersten, "we explain the sales control system in various direct mail programs. The number of inquiries resulting from these promotions are high and provide the basis for additional calls and discussions."

Cummins' home office in Chicago is kept abreast of personnel changes across its entire customer and prospect spectrum. The company is not at the mercy of the salesman's judgment in this area. Management now has control in addition to being able to establish criteria for sales effort evaluation.

"With this system," says Klotz, "we find that we have a reduced cost for calls-per-sale. Each call is much more productive, eliminating the bulk of fringe calls. Result is a dollar savings for us. Then, too, we have a much clearer picture of what a given territory, industry or company can be expected to produce for us. The salesman doesn't tell us, we tell him."

Bona fide leads, of course, have jumped as a result of sharper sales control. "And they're being converted to sales in many more instances," adds Segersten.

"And we have a cleaner profile of our audience," says John Below, ad manager for Cummins. "It's removed an awful lot of guesswork in the advertising and sales promotion part of our business. Simply, it provides a better basis for budgeting since we're sure of a greater return for each dollar spent. Then, of course, we can make a more accurate selection of applicable media. Mailings go to fewer—but more important—people, and thus more frequently. Now we know where to aim."

In the area of market research, Cummins now has a statistically accurate basis for marketing research projects. Most important, the company can properly identify respondents. This means sharper planning in the area of new product development, aimed at producing products the customer has indicated he wants and needs.

"And," says Segersten, "you cut down on 'wandering' distributors. You can direct their efforts, as well as those of your own salesmen, to where the bulk of the business can be obtained.

"Another advantage is that management now has the basis for setting up a realistic call-and-sales record which operates before the fact instead of after. As we noted, salesmen have a natural tendency to identify those prospects they think they can sell. Often, they leave out the best prospects. This system provides the tool needed to break up undesirable 'circle-selling-habits' almost before they get started.

"It also gives us a sound basis for determining territories and the number of salesmen needed to sell them. We get very little backtalk when we show these proved buying histories in salesmen's areas."

Cummins has expanded far beyond invoice canceling equipment. Starting with items which punched holes in documents requiring cancellation ("You can't erase a hole!"), they have moved with the electronic era and are now starting to produce electronic equipment to read words formed by the perforations—thus adding speed and great flexibility.

John Jones, Cummins' executive vice president, focuses sharply on the company's highly productive and successful sales control program: "Our major markets have been defined; establishments representing 80% of total potential are identified—usually about 20% of total establishments; key individuals in each establishment are identified by name and title; our home and branch offices are provided with complete files of top prospects; advertising is prepared to reach that specific readership; and first-

class mailings—personal messages—go out to selected 'authority' names."

In 1960, the firm will introduce its Perf-O-Data equipment which provides automatic processing of original documents.

And under its re-organized, redirected program, what does the company management see coming up in sales of these new products?

"We're about as sure of success as a manufacturer can be," Segersten says, "Control of sales is where it belongs—with sales management."

49 Sell Them Systems—Not Just Products*

BY VAN NESS PHILIP†

Salesmen for Galbraith & Sulley, Ltd., Vancouver, B.C., are adapting quickly to the automation age. Their method: selling customers on ideas and systems, instead of merely introducing products.

"Of course we need the top flight standard products to begin with," the G. & S. management asserts, "but the payoff comes from doing more than making the components available. It depends on how effectively we put components into working systems.

"These systems have to fit our customers' special needs. First we find where a need for a new idea exists. Then we try to create demand by showing we can solve the problem."

How two G. & S. technical salesmen sold new ideas for automatic operation are illustrated on these pages. In both these cases—one involving a newly established production shop; the other a department store—the distributor's outside men uncovered potential for new fluid power applications.

Neither a small machine shop nor a department store is usually considered a live prospect for automation. But Galbraith & Sulley's men take pride in testing untried ideas.

Their management believes: "Opportunity is where we find it. If we know our products, we can make them do a great diversity of jobs."

"For example, you need air cylinders, whether you are dealing with a cut-off saw in a machine shop, or a package lift in a department store."

In practice, this kind of engineering-selling is not simple. Finding the precise mechanical problem and then working out a practical solution is

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* Reprinted from *Industrial Distribution,* January, 1962. Copyright, 1961, by McGraw-Hill Publishing Co., Inc., 330 W. 42nd Street, New York 36, N.Y.

† Associate Editor, *Industrial Distribution.*

no job for amateurs, or one-call salesmen, as the following examples show.

Example Number One

Don Dangelmaier, Galbraith & Sulley general technical salesman, believes there are five steps in selling systems that require more than routine preparation. These are:

Locating the potential.
Finding the specific problem.
Detailed solution and proposal.
The service follow-up.
Preparing for additions.

At Vancouver Aluminum Products Co., producer of aluminum siding for buildings, there was both potential and a problem. The problem was how to automate a sawing operation, reducing labor costs by a fifth or more and speeding up production. Galbraith & Sulley installed an air control system for this purpose. Dangelmaier carried through from start to finish as salesman, designer, coordinator (he had to have outside help) and consultant on production. For this, Galbraith & Sulley gained a $1,000 sale, the prospect of additional installations in the future. The customer got a working system that removed a roadblock to expansion in the future.

Curiosity alerted Dangelmaier to this opportunity. Vancouver Aluminum started building its new plant, and Dangelmaier called. He discovered what he had learned to look for—a young, still-small concern with high growth expectations. Experienced men were behind the enterprise. It had a product certain to be in good demand in the Canadian Northwest. If it could get into production soon enough, it could be first in its field in Canada.

"I spend a lot of time on tips that could lead to these situations," Dangelmaier says, "even though most tips don't. New growing businesses are a big part of our future. No shop is too small to call on if we can help it grow."

Next, Dangelmaier tried to pinpoint the specific problem. "This is generally the crucial point," he says, "because the customer himself may not have recognized it."

At Vancouver Aluminum, the over-all problem was apparent to the owners. It was to eliminate at least one man from the production line by making the sawing operation automatic. Still unsolved was how to do this in a way that would retain a smooth, fast cut. The plant was testing a pilot run in which a modern saw controlled by limit switches made the cut. But a man was needed to return it on its carriage for a new cut every time.

Dangelmaier proposed clamping the saw to the work after each cut so that both would ride together on the moving production line, then returning it to position automatically for a new cut. This, both he and the

owners knew, was done hydraulically, with partial automation, in board plants. He was sure it could be done with air in this case, and that it could be fully automatic.

Since he knew he would have to subcontract the machinery installation if he got the order, Dangelmaier next checked the idea out with an air expert who operated a machine shop. This was Albert Lefebvre, of Air Brake Repairs, Ltd.

Lefebvre agreed that the right combination of valves, pressure regulators, cylinders and compressor sold by G. & S. would do the trick. The trick was in the timing of the valves for clamping to the material, for actuating the saw carriage, and for the supplying of the right air pressure at each point.

Lefebvre and Dangelmaier worked out designs and layouts, figured all the necessary components (based on number of cycles, pressure per minute, etc.) and presented a full proposal and an estimate, which were accepted.

"Good detail work is essential," Dangelmaier says, "as we are dealing with customers who know their operations. They are open to ideas if we can prove they work and actually do save costs.

"How does a technical salesman do this? Well, I do have a specialized background in air applications. Also, I know where to turn for help. G. & S. has engineers when needed. And shop specialists like Albert Lefebvre can help us with ideas as well as layout."

Service follow-up included supervising the installation, supplying piping diagrams for plumbers, and adjusting and testing the entire setup.

While this was being done, the plant's owner began to give more thought to future additions to the system. More automatic handling will be needed at the finished end of the production line. Dangelmaier has proposed a new conveyor setup.

"Projects like this take time," said Dangelmaier. "The salesman who wants to close an order on the first or second call will not succeed in transactions of this kind."

In all the Vancouver Aluminum job took a month from first call to complete installation. Other sales like it have required much more time. In this case, the need to get production started called for quick decisions.

Dangelmaier's first call was primarily to tell the prospect what his company had to offer. He learned generally what the new plant manufactured.

On his second call, J. Yermie, plant foreman, outlined the problem of the manual sawing operation. After this, Dangelmaier went to see Lefebvre.

Dangelmaier and Lefebvre called together to get all the facts. In a week they had designed the layout.

Dangelmaier submitted the proposal. J. Yermie and Plant Manager W. Werner thought it over for two weeks while making calculations of their own. Then Manager Werner placed the order.

Two weeks later, after several calls by Dangelmaier to check details, the installation was complete.

The entire transaction took about six full hours of Dangelmaier's selling time. This was in addition to the time spent figuring the layout.

Dangelmaier says this about the rewards of systems-selling: "It's a phase of business that is more recession-proof than many others. When labor costs are squeezing manufacturing profits—as they certainly are in Canada—automation has got to come as fast as possible.

"The opportunity for the alert industrial distributor is clear. If he can increase productivity, eliminate a manual method or decrease downtime, he is almost guaranteed an order. He doesn't need new products to do this. Just new ideas for standard products used in different combinations."

Example Number Two

To G. H. (Tim) Eaton, Galbraith & Sulley mechanical engineer, the Hudson's Bay Co. account presented an unusual challenge.

"HBC" Vancouver is a large department store. Its management had ambitious plans for revamping and mechanizing its internal operations for the sake of customer convenience and lower handling costs. They had built a large parking garage behind the store.

Now they envisioned something quite unique—semi-automation of the store's large grocery supermarket section. (In Canada large department stores contain big-volume grocery operations). They wanted take-home shoppers' grocery bags to be handled on conveyors direct from checkout counters all the way to a pickup station on the parking ramp. This would relieve congestion at the counters, speed the checkouts and afford supermarket customers the unrivalled convenience of being able to walk directly to their cars without carrying their packages.

Plans called for a tunnel and a long conveyor under the street between the store and parking garage; some kind of lift to drop the packages to basement level from the checkout counters, and some means for joining vertical and horizontal movements to avoid any bottlenecks in the package flow.

Tim Eaton, who had worked with the store's architects in earlier conveyor installations, was asked to propose a layout. E. A. Phillips, store services superintendent, told Eaton he wanted six check out operations automated, with no risk of bottlenecks. He warned: getting the order for this job would require a sound plan, at reasonable cost, for an uninterrupted flow of merchandise.

Tim Eaton ruled out inclined conveyors and chutes because of space problems. After careful study, he told Phillips he thought the principle of the lift truck could be applied to the operation to remove the groceries vertically down. He proposed that special platforms be fabricated, to be actuated up and down by air cylinders from checkout counters to a point just clear of basement ceiling level. These would receive shoppers'

bags (which had been placed in tote boxes) from powered conveyors at the checkout points, and drop them through the floor to gravity conveyors below.

The packages would then be fed into a main conveyor through congestion-proof switches, and then into a central checking station for separating take-home orders from the store delivery orders. From here take-home packages would flow out through the tunnel to the parking exit. Mechanical interlocking devices would be used to "police" traffic and prevent jam-ups.

Planning required detailed work with weights, store traffic figures and peak load estimates to decide on requirements and evolve a smooth sequence of flow. Eaton submitted estimates for six lift platforms, or "Lowerators," in the checkout counters and a conveyor system with about 200 feet of new conveyor added to the footage then in place.

Galbraith & Sulley would fabricate the Lowerators and special air cylinders to actuate them in its own shop. Flow control valves, tubing, conveyor sections and numerous other products were shelf standards.

The proposal was accepted and one of the world's first "automated supermarkets" is now operating successfully and bringing in new business for HBC-Vancouver.

Says Eaton: "The operation is unique, but to us at G. & S. it illustrates the kind of potential we must always be awake to exploit. Automation is not coming just to lumber mills and metalworking. All types of industry must mechanize.

"If we confine ourselves to selling traditional products only, and selling only to the people who are used to using them, we will miss a major opportunity."

50 Bostitch Learns How to "Use" People *

Asked to account for record-breaking sales gains, Bostitch, Inc., points proudly to its revamped sales structure—keyed to top utilization of people and built to a great degree of constructive criticism solicited from its distributors and branch managers.

Four years ago, when James M. Nestor first gazed out of his new office window, as general sales manager, Bostitch, Inc., the ideal

* Reprinted by special permission from *Sales Management,* March 18, 1960.

sales structure of his musings was a faraway dream—its recurring motif: people, doing the right thing, the right way, at the right time. This would be organization!

From the dream came the plan for the buttons to be pushed; shakeup time descended on Bostitch's sales organization—and the "people factor" came into play.

The significance of the changes which resulted from this reorganization are immediately evident in a look at Bostitch's sales figures: Last year's $26,814,585 set a company record, more than 14% higher than the previous high (1957) and 18.6% better than the '58 figure. In addition, net profits showed an increase of 58% from 1958 to '59.

Objectives of the sales shakeup, which had its beginnings in April of 1957, were:

To utilize people—and their abilities, experience and personalities—more effectively.

To make the whole field sales organization more profit-minded.

To improve communications.

To develop sharper general management focus on the company's marketing problems.

To achieve closer integration between the various marketing functions.

To tighten operations control to get a current and accurate picture of performance vs. objectives.

Bostitch, a pioneer in the manufacture of stapling equipment, is the leader in its specialized field, employing 340 full-time territorial sales representatives in the U.S. and Canada, and a world-wide distributor representation in foreign markets. The product line is long and varied. There are more than 800 models of staplers and wire stitching machines alone.

The sales shakeup of the Stapling and Stitching Division (which accounts for 85% of Bostitch sales) began three years ago when Nestor took over as general sales manager. Then 37, he was already a 10-year veteran in the Bostitch sales organization, having served as territory salesman, sales supervisor and manager, first in the Detroit, and then in the Los Angeles Bostitch distributing subsidiaries. His approach to his new job was strongly influenced by his field experience.

"Ours was a strong and successful company, to be sure," he observes, "but there had been a very human tendency to rest on our oars. We needed to continue to grow—and to maintain and expand our inherited leadership as a progressive, profitable company.

"I had some fairly definite ideas about what should be accomplished in strengthening the over-all Bostitch marketing effort before I agreed to take the job, and President Emmet G. Gardner had told me that these didn't scare him a bit. However, I wanted to get all the objective advice possible—I have the highest regard for our field men and I wanted to encourage high-level self-criticism from that area."

To get this advice, Nestor sent a letter to distributors and branch managers and their top aides, asking them to meet with him—and to come thoroughly prepared to discuss all major marketing problems. These men were invited to present critical opinions on distribution methods, compensation, sales training, product improvement, pricing and profits, product quality control, handling of special adaptations, industry specialization, credits, discounts, sales meetings and any other subjects they wished to discuss. Nestor assured them that any criticism would be accepted without prejudice—if they would sincerely try to suggest remedies.

Significantly, the men were also asked to suggest the specific kind of help they wanted from headquarters. Their suggestions led to an important revision of the Sales Department's organization chart, with these important corporate policy changes ensuing:

Sales management

According to Nestor, one of his most fortuitous moves was to appoint a strong sales manager in the fullest meaning of the title. M. Claude Schuler, for many years the highly successful head of the Bostitch Atlanta Branch, was chosen, becoming the Sales Department's number two man, with heavy administrative responsibilities.

"The job," says Nestor, "is a man-killer and we need the strongest possible man in it. Schuler has complete day-to-day control of all U.S. and Canadian Bostitch sales and service groups. As a practical vote of confidence in the high quality of our local branch management teams, we eliminated entirely the jobs of the staff field sales manager and three regional factory sales supervisors. It was felt that we could depend on first-rate professional leadership performance from the branch and distributor organizations by throwing full responsibility for selling and profit results onto the shoulders of local branch management.

Sales Manager Schuler inaugurated a budgeting system in 1959 for all branches, designed to make them "a great deal more conscious of net profits and how we come by them." In Schuler's own words: "We believe—all down the line—that the answer to selling problems starts at the top and not at the salesman's level. We now have a program to stop the waste in our branches and gives us more distribution profits which, in turn, will give us more money to spend on salesmen's salaries and commissions, advertising, sales promotion, product improvement, etc.

"In earlier years we made salesmen into supervisors, supervisors into sales managers, and sales managers into managers without giving them the basic financial, accounting or management training needed for these increased responsibilities. We now have a program to show them not only what we want them to accomplish, but how to accomplish it.

"Under our new program, we are giving managers more responsibility

for profit-showing in branches. We made their assistants branch sales managers, gave them salary increases as well as the opportunity to earn more as profits increased. Our branches are now definitely profit-conscious at the top and more sales-conscious than ever before."

Schuler, as national sales manager, took over the job of critical analysis of branch office financial statements. "The response of our managers to a down-to-earth budget control program was little short of amazing," says Nestor. "This exciting new business management program helped to earn the company over $674,000 in increased net distribution profits of its wholly owned subsidiary sales branches in the first year. Of course some of these increased distribution profits came from a $2,750,000 sales increase by these same branches, but it is interesting to note that these distribution activities brought a 16.6% increase in sales volume up to a net profit gain of 56.5%.

Sales specialization

Several years ago Bostitch decided to try to capitalize on sales specialization. Especially talented industrial salesmen were selected from the sales force to work with high potential accounts. A typical example is the automobile industry, in which long-range sales-engineering projects frequently pose discouraging problems for the versatile all-purpose Bostitch territory salesman. These projects sometimes involve plants and buying offices in many different "traditional" Bostitch geographical territories, making the vital coordination of sales and service follow-through difficult to effect.

A pilot sales specialist program in 1959 gained for Bostitch better than a 300% sales increase in sales volume in the large-potential automotive field.

Many more industrial account specialization territories, as well as metropolitan area dealer specialization territories, will be established in 1960 to extend the impressive sales gains already proved by the "specialist" method.

Expanded sales promotion and tougher sales training programs have been put into effect under a newly created dual management function. Chosen to fill this key slot was George Slade, veteran Central New York field supervisor. Among his duties: preparation of training manuals, an applications library, an improved setup for recruitment, a training program for branch sales personnel, and plans for more effective sales promotional efforts. Slade emphasizes internal promotion of newer products to Bostitch salesmen because, "Selling is no more than a successful transfer to the potential buyer of one's own honest enthusiasm for the product or service."

Down-to-earth sales training seminars are also focused on new-product knowledge and enthusiasm. These seminars are developed through close teamwork of Slade, L. K. Grimes, product improvement manager, and field salesmen and supervisors who have been most successful with

the new products. Excellent assistance in planning and carrying out the program is provided by manufacturing and engineering personnel of the factory group.

The pilot seminars were held at Rhode Island headquarters for 14 field service managers and 47 field sales supervisors. Emphasis was on providing sales techniques for a half-dozen products introduced within the past two years, and with thorough product indoctrination, any doubts about the products were removed from the minds of these all-important field sales teachers. A new motto for Bostitch salesmen, unveiled at the meetings, expresses the age-old philosophy of most good industrial service salesmen: "Only if it is good for your customer is it good for you and for Bostitch."

Regional seminars along the same lines have already been held in Bostitch field offices by enthusiastic attendants of the Rhode Island supervisors' meetings. "Early sales results have been so dramatic," says Nestor, "that these meetings will be repeated every time sufficient changes in the product line justify using this approach. We are confident it will chop as much as a year off the usual introduction-acceptance time of a new Bostitch tool or application."

Product Planning

When field managers expressed concern about the growing obsolescence of certain items in the stapling and wire stitching lines, management decided to focus careful attention on this vital area of the marketing effort. Loren K. Grimes, manager of Bostitch-Baltimore, became the first product improvement manager on the national sales staff. He is now the liaison between field and factory, advising management both on product improvement needs and on opportunities for new products.

"In this appointment," Nestor explains, "we are not pre-empting the duties of our director of research and development or any other executive in our Production or Engineering departments. The Sales Department is simply advising top management, with a single voice, on the most important potentially profitable needs of our customers and prospective customers, keeping our eyes constantly on existing and potential markets as a whole."

In his work as product improvement manager, Grimes is responsible for market research, spending much of his time in the field surveying potential new markets. For example, he has recently studied sales potentials in the furniture, roofing and construction industries to learn from technical experts in those areas what they would like Bostitch to manufacture in the way of wire fasteners. When necessary, he arranges with his market research specialist to conduct surveys and compile complete market statistics.

"Grimes' work is already paying off," says Nestor. "One of his new product 'babies' embodies a new concept of stapling speed, making

automation possible in the shipping department. The product is our Golden Belt Bottomer, an economical, fast stapler for making up shipping containers. Operating on the cartridge principle, a continuous 'belt' of 4,000 staples can be loaded into a machine in a matter of seconds. We're especially proud of this one. It's a 'first' in the industry, saving time and money for our customers while making money for Bostitch."

Another new Bostitch product won the July 1958 Product-of-the-Month Award from Mill and Factory magazine, for distinguished contribution to American industry. Developed specifically for the automobile industry, but quickly discovered by many other industries, the model P-10 is a powerful, portable, air-driven stapler which drives a staple through cold rolled steel and other hard substances—a job formerly practical and possible only with large, stationary, heavy-duty wire stitching machines.

In response to field executives' requests for an extension of the line sold through stationers and industrial dealers, two new models have been added: a medium-price standard desk fastener distributed chiefly through retail stationers and a light stapling hammer-tacker sold through building supply dealers. Still a third new dealer product will be introduced in 1960.

Special Service to Customers

An important phase of Bostitch customer-relations is the adaptation of standard Bostitch machines to unusual fastening requirements of customers and prospects. Some of this could be, and had been, done in the field, but the field force needed the help of a well-equipped and well-directed customer-service department at the factory.

To solve this problem, W. Eric Hofer, a sales executive on the factory staff for many years, was promoted to manager of customer service. He works closely with Grimes to speed up research on samples sent in from the field and furnishes the Engineering Department with detailed information on adaptations made to solve each specific fastening problem as it comes up.

Field-to-Factory Communications

Prior to the Sales Department's shake-up, there was considerable unnecessary correspondence between home office executives and field personnel. Time and money were lost in getting decisions and action. To correct this, a comprehensive outline has been prepared to guide field personnel in their communications with home office executives. It describes the duties and responsibilities of all home office executives—in regard to the field.

"We also had each field and staff man submit to us a description of his job so we could shift around to get better distribution and coordination of the various duties and responsibilities," Nestor points out. "Communi-

cations now go to the right person to begin with and eliminate days of delay and a bulk of carbon copies formerly shotgunned to individuals who really would have little or nothing to do with the subjects discussed."

Staff Communications

Relatively simple but very effective revisions have been made in the routine communications system of the national headquarters sales staff. For example. All incoming memoranda and letters are classified according to urgency before being placed in the appropriate folders on an executive's desk. Thus no "rush" matters are delayed.

A meeting of the entire staff, held in the general sales manager's office every Friday morning, handles suggestions or questions submitted by any staff member. The advertising agency is almost always represented at these meetings. All staff people contribute, whether or not the subject matter is related to their particular responsibility. This meeting has been found to accelerate development of sales programs by weeks and even months, while providing an excellent means for broadening the experience and viewpoints of the staff members. Some of the best ideas have come from the unexpected sources in these "sounding board" meetings.

Field Sales Compensation

Here the problem was to find a way to give a fair, competitive earning opportunity "to the caliber of creative salesmen we like to have represent Bostitch." In fiscal 1959 the average earnings level of all salesmen was raised about $2,400 a year beyond the barely satisfactory figure of 1957. "This was done," says Nestor, "by weeding out surplus men—men who were not working productively and who just didn't belong in our organization with its present sales potential.

"The new manpower improvement program paid off big in the past year when average sales earnings of regular territory salesmen moved right past the magic $10,000 per year figure we had established as a 1960 goal. Turnover dropped to 17% in 1959 from a highly unsatisfactory and very expensive 27% replacement rate in 1957. Bostitch is represented today by the smallest, but undoubtedly the highest caliber and most productive, sales force in our recent history."

Warehousing and Distribution Operations

Consolidation of many warehousing and distribution operations is now in process. "There has been a great change in the technologies of transportation and communication," Schuler points out, "and significant shifts in population centers. This has led us to new distribution and service arrangements which accurately reflect 1960 marketing conditions.

"For example, in September 1958 we began to provide accounts payable, inventory, shipping and receiving and major administrative services of every kind for the Baltimore and Philadelphia branches from our New

York City field headquarters. This consolidation has resulted in a decrease of more than 5 cents on the sales dollar in our Baltimore and Philadelphia operating expenses."

"And most important of all," cut in General Sales Manager Nestor, "Bostitch customers in these areas are getting faster and better service than was ever possible under the old system with three separate, identical organizations located in this relatively small geographical area."

Foreign Sales

Very new on the sales organization chart is the foreign sales director. To fill this job Nestor brought in Arthur P. Collins, general manager at the Long Island City branch, who had had previous experience in the export field. A new Bostitch factory in Alzenau, near Frankfurt, Germany, brings the company closer to an area of prime interest—the European Common Market.

"Our entry into European manufacturing," Nestor points out, "eliminates many expensive problems of foreign selling, such as long-distance hauling into the largest overseas marketing areas. Lower labor costs and the use of European materials are accelerating our sales expansion—and lowering prices. Bostitch foreign sales gains ran ahead of domestic increases in 1959."

Advertising and Sales

They work hand-in-hand at Bostitch. In charge of the domestic and foreign advertising budget, which now exceeds $600,000, is long-time Bostitch adman, Sherman L. Smith. Involved for years in a myriad of public relations and advertising duties, Smith fits easily into the new promotion-minded factory sales team. He works closely with Nestor and with General Manager J. Grandel Jones of the new Container Machinery Division.

Smith relies heavily on horizontal business publications as well as mass consumer and news magazines, but, "Two large Bostitch markets which are covered very selectively in vertical magazines are the stationers and building supply dealers. . . . In all our advertising and our supplemental publicity program we rely heavily on case histories to show by example the successful use of Bostitch equipment.

"We try to get the readers of our ads to think that possibly their particular problems can be solved by something we can furnish. With few exceptions we do not try to sell a specific product in ads. We try to create a receptive attitude and induce business and industry to turn to Bostitch sales engineers with individual fastening problems."

There was an unmistakable air of optimism and confidence among the Bostitch Sales Department group as 1959 record books were being closed, says Nestor. All members of the busy staff were preoccupied with promising plans and programs designed to extend the profit gains of 1959.

The 60's should be good Bostitch growth years. Many of the new, stronger programs were already well advanced as the first 1960 fiscal quarter closed (in November '59). Among them:

Record advertising budget, including healthy new foreign commitments.

Further extension of foreign sales efforts, including major South American marketing efforts.

Greatly improved branch office budgetary control, based on 1959 experiences.

Further extension of sales specialization, which has proved highly successful in the experiments conducted to date.

Further consolidation of field servicing, based on the successful Eastern Seaboard test.

More concentrated industrial and service training seminars.

New and improved techniques of recruiting and sales training in manual form.

More and better internal sales promotional and training aids (making substantial use of 35 mm projection and tape recordings).

Preliminary Bostitch sales figures for the first quarter of fiscal 1960 show a 14.8% U.S. sales increase over the same three months of record 1959. Foreign sales results in the same quarter are 40% ahead of last year. Distribution and consolidated profit results of Bostitch, Inc., are very sure to be favorably affected by these continuing sales gains.

PART SEVEN

PRICE STRATEGY

51

Will Trading Stamps Stick?*

BY RICHARD HAMMER

Stockholders of the Great Atlantic & Pacific Tea Co. gave President Ralph W. Burger a hard time at the company's annual meeting in June, and toward the end Burger was obviously mad. When he was asked about the company's continuing resistance to the use of trading stamps, he snapped: "These stamps are a drag on civilization." However, he noted unhappily that A&P might be forced to use them "if it becomes necessary and desirable and if they produce the results."

The fact is that A&P has already surrendered in one small sector of its empire: it offers stamps in nineteen stores in Los Angeles. A&P's complete capitulation, if it comes, will just about signal the final victory of trading stamps. For that matter, the victory might be claimed right now, for most of the other large supermarket chains that are on record against stamps—including Safeway Stores, National Tea, and Kroger—have given in and are now using them in most of their stores. It is obvious that millions of consumers want them, and many will go out of their way to get them. Ordinarily, these days, they don't have to go far; in some parts of the U.S. the problem is not how to find a store with stamps, but how to find one without them.

And yet, ironically, the vast success of trading-stamp plans is creating some serious new problems for the plans. For in gaining almost universal acceptance in the supermarkets, the stamp plans have been losing their main selling point—that they can give one supermarket a competitive advantage over another. Several stamp plans have been trying to persuade the supermarkets and the public of the special superiority of their particular plans. But it is hard to make this wash; for it is a fact that almost all the bigger stamp companies offer just about the same services to the chains and the same merchandise as premiums to consumers. Where does this leave the plans?

According to one recent survey, about 75 per cent of American families now save trading stamps, and almost half the savers are saving more than one kind. In 1959 stamps were passed on to these consumers by some 200,000 retailers, usually at the rate of one stamp for every 10 cents spent,

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though on occasion the rate goes to two for a dime. All told, some 275,-000,000,000 trading stamps were passed out by supermarkets and other retailers, and were tied to a sales volume of $32 billion[1]—about 15 per cent of *all* sales in retail stores. The supermarkets buy these stamps from one of about 250 stamp-plan companies. The biggest of these by far is the Sperry & Hutchinson Co., of New York, which will do perhaps 40 per cent of the trading-stamp industry's 1960 volume of $700 million. Other major plans include Top Value Enterprises of Dayton; Gold Bond Stamp Co. of Minneapolis; and the Blue Chip Stamp Co., owned cooperatively by supermarkets and other retailers, and limited to California. After selling the stamps to the supermarkets, these companies accept them from the supermarkets' customers in exchange for merchandise at about 1,600 redemption centers across the U.S. In 1960, it appears, these redemption centers will distribute merchandise that, if it were bought at department stores, would cost perhaps $675 million.

These sizable figures demonstrate that a lot of people are tied to the trading-stamp business these days: the retailers, the consumers, and the stamp companies themselves. For retailers, trading stamps have provided a way of boosting the gross without raising prices; but when the gross does not increase, the retailer may begin to think of the stamps as a nuisance and added expense, and raise his prices. For consumers, trading stamps have meant a way of getting valuable premium merchandise, and of getting it free, or at least painlessly; but the consumer may begin to feel some pain when the stamps mean further increases in food prices. For the stamp companies, their plans have meant years of furious growth; but how long can such growth go on? In the logic of the situation, their products become less valuable as more and more competing stores take them on.

Locking in the Consumer

Not only supermarkets offer stamps—gasoline stations and even dry-goods stores use them too in some places—but about 65 per cent of the stamps are distributed in the grocery field, and stamps are given with about 40 per cent of all grocery-store sales. Groceries, of course, are the ideal product for a stamp plan because they are bought repeatedly and in heavy volume.

Retailers use the stamp plans, according to Richard Ettelson of the King Korn Stamp Co., "to develop a savings pattern in the consumer so

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[1] The over-all rate works out to a little less than one stamp to a dime for three reasons: (1) some stores give stamps only when customers ask for them; (2) in some states there are laws forbidding premiums on certain products—e.g., liquor—and the courts have held that these laws apply to trading stamps; (3) the stamps are given only on even multiples of 10 cents, that is, one stamp is given on a purchase of 19 cents.

that she gets locked into the program and of necessity shops at stores giving stamps." But the retailers are finding today that they too are getting locked in. Once they buy a plan, they cannot drop it without alienating new customers stamps have brought in and old customers who have become avid collectors. In the hotly fought retailing market they cannot afford to give competitors who keep stamps that much edge. In other words, a chain may adopt stamps to make business grow; and then it may find it must hang on to the stamps just to keep business from contracting.

The first retailers to go in for trading stamps in a big way were the independent supermarkets, which adopted them early in the 1950's in an effort to compete against the big chains. Around 1956 the big chains themselves began to use stamps extensively: they had pretty much completed their great conversion to supermarkets and their push into the suburbs, and many of them were looking for new ways to expand. Today, all of the ten biggest grocery chains give stamps. Two make only limited use of them, however. Jewel Tea offers them only in its small Eisner division, and A&P, as noted, gives them out only in Los Angeles. The Super Market Institute says that stamps are given by 72 per cent of all food stores with a volume of over $1 million and by about three-quarters of all such stores in chains whose sales are over $25 million.

The movement of trading stamps into a community generally follows a pattern. A stamp company, such as S. & H., Top Value, or Gold Bond, finds a supermarket chain with a relatively small share of what it thinks is its potential market and with some excess capacity. The stamp company's representative can be very persuasive. He is armed with studies showing the growth in business that others have gained by using stamps; he has studies by psychologists, like those done for both Stanford Research Institute and Forbes Marketing Research by Dr. Bertrand Klass. Many psychologists have examined the unconscious motives of the women who collect stamps; many derive intense emotional satisfaction from saving the stamps, and there are some psychologists, at least, who view these savers as having regressed to the "anal-retentive stage of development." The studies by Dr. Klass show that the consumer, once she starts collecting, is not likely to stop. Finally, the stamp company has figures which suggest that the stamps will bring enough new business to the store so that they more than pay for themselves.

The supermarkets buy the stamps from the stamp company; the price is ordinarily figured at 2 per cent of retail sales—and the sales figure is often determined in a close audit of the books. A supermarket that had an annual volume of $1 million, for example, might pay the stamp company $20,000 for about ten million stamps. The stamp company gives the store an exclusive franchise for its stamps in the trading area. In addition to the stamps, the retailer receives all the savings books, the catalogues of mer-

chandise for redemption, and plenty of promotional material. Meanwhile, the stamp company sets up a redemption center nearby, to which savers can bring in their filled books and select premiums.

With the signature of the supermarket on a contract—which may run from one to ten years—the stamp company will proselytize the surrounding drugstores, dry cleaners, service stations, and other small merchants, attempting to build up a "family of stamp givers" around the supermarket. These smaller merchants ordinarily pay something more than 2 per cent of their sales to get the stamps they need. Characteristically, they buy their stamps in small lots, and they might pay as much as 3 per cent—but they generally give stamps only to customers who ask for them, which brings down their net cost. When the clients are signed up, the stamp company sets off a barrage of newspaper advertising and throwaway promotions to announce the impending local revolution in retailing. Special offers (e.g., extra stamps on selected items) are made in order to get the customers in, and to acquaint them with the different departments of the store. In the weeks following, the store may continue to use "double stamps" to beef up business in any department not doing the volume it should. In areas where stamps are something new, a store introducing them might well gain 30 per cent or even 50 per cent in volume in less than six months.

These spectacular successes are not, of course, lost on the competition. To win back their customers, the competing chains may try to meet the stamps with their own premium offers, but these are generally onetime deals that cannot have the same effect on customers' loyalty as a continuing program. In trying to fight stamps, some stores have also used tape plans—i.e., the cash-register tapes are saved and can later be exchanged for premiums; but these plans are expensive for a store to operate, and difficult to control, and tapes do not seem to have the same appeal to housewives as trading stamps. Stamps have also been fought, though without success, in several state legislatures. One argument against them is that, if the stamps really have any value, then they represent indirect price cuts and so violate some unfair-practices laws. Finally, stamps have been fought simply with low prices, but in this age of affluence not many consumers have the patience to figure out which supermarket is, on balance, the cheapest place to shop. (A store that wants to raise prices inconspicuously may reduce the number of weekend specials and lower the price savings on the specials. It may reduce the big discounts on its own private-label foods, and it may find more space for nonfood items with higher markups.) A&P supermarkets are among the very few that have been able to fight stamps on price, but its future success in this endeavor is, as President Burger indicated, uncertain.

And so, finally, the other chains rush to other stamp companies. President H. V. McNamara of National Tea, which took on S. & H. stamps in Chicago, says, "We fought stamps with everything we had before we

capitulated. But women believe in them. They'll leave their change on the counter, but not their stamps."

The Offense vs. the Defense

In the pattern described above, note that the first food store took on stamps as an "offensive" weapon, to gain new business. If it did get the extra volume, then the stamps were a wonderful buy. Suppose, for example, that the store had a volume of $1 million before it took on the stamps, and that its pretax profits ran to 2 per cent of sales, or $20,000. The wholesale prices of its goods averaged 20 per cent below retail, i.e., $800,000, and the store also had $180,000 of fixed costs. Now suppose that the stamps raised volume by 15 per cent, and that the store's capacity and personnel were able to handle this extra volume without any increase in the fixed costs. The volume would now be $1,150,000, and costs would add up to $1,123,000—i.e., $920,000 for goods purchased, $180,000 for overhead, and $23,000 for stamps. The profit would now be $27,000, or $7,000 more than it had been before the stamps. In general, the industry figures that trading stamps pay for themselves when they raise volume by 15 per cent, and when fixed costs can be held steady.

But consider the late arrivals in a neighborhood, which use the stamps *defensively*—i.e., to meet the competition rather than to expand. These stores may have simply tacked 2 per cent onto their operating costs; and in an industry where profit margins seldom run higher than 2 per cent of sales, this may force the retailers to boost prices or suffer declining profit margins.

Until recently, there is no doubt that the stamps have helped to foster some big sales gains for offensive-minded retailers. In 1956, when Grand Union brought its own Triple-S variety into more than half of its stores, sales were $374 million. In 1959 volume was $603,468,000. Food Fair brought in its own Merchants Green stamps in 1956, and between then and 1959 sales advanced from $475 million to $733,961,000. Kroger had Top Value in half its outlets by 1956, and has increased its volume over $400 million since then, from $1,492,552,000 to $1,911,902,000. Since 1955, when Winn-Dixie Stores took on stamps (it uses S. & H., King Korn, and Top Value), its sales have increased from $358,609,000 to $666,370,000. While it is impossible to credit these gains solely to stamps, since all of these companies were opening new stores in these years, some of the credit obviously belongs there, because non-stamp retailers that also opened new stores in the same period—e.g., First National Stores—did not do nearly so well. First National's sales increase in 1956–58 was only from $491,668,000 to $531,521,000, and in 1959 First National sales actually declined. Last month First National began offering trading stamps, A&P, using stamps only in California, did manage to expand sales from $4,304,991,000 in 1956 to $5 billion in 1959, but its rate of growth in these years was perceptibly lower than it had been earlier in

the decade. It is apparent that Burger may have to help drag down civilization if these trends are continued.

Who Pays How Much?

The appeal that trading stamps have for many consumers is not hard to explain. The stamps allow the housewife to get the small appliances, housewares, and luxuries that she might never get around to buying if she had to pay cash. If she gets the stamps without having to pay more for food, then they are an unalloyed bargain. And even if her food costs rise, and she knows it, she may still look on stamps as a kind of easy way to save up for the merchandise she finally gets in exchange for them. Milton Friedman, the distinguished University of Chicago economist, believes that this may be the real appeal of stamps today. "People are willing to pay people to make them, force them, to save," he says.

On balance, how much *does* the consumer pay for the stamps? There is no really authoritative and up-to-date answer. A 1957 study by the Department of Agriculture showed that prices in stamp-plan stores ran about 0.6 per cent higher, on the average, than in non-stamp stores, at least so far as items in the Consumer Price Index were concerned. If stamps had, in fact, pushed up food prices by only 0.6 per cent in early 1957, then there is no doubt that the consumers were getting more than their money's worth. A family that spent, say, $120 a month for food would be paying only 72 cents extra for stamps. It would get 1,200 stamps, just enough to fill a book redeemable for $3 worth of merchandise. At least, it would sell for $3 at a department store; the price at a discount house might be, say, $2.50, which is still $1.78 more than the rise in food prices.

The 1956 study was made when the big chains were just beginning to use stamps extensively, and most stamp-plan stores were able to increase their volume. But in the present stamp-saturated era, prices in stamp-plan stores are almost certainly up more than 0.6 per cent. In general, the housewife still breaks even if food prices rise by 2 per cent—that is, if she redeems all her stamps and can really use the premiums she gets. When the prices rise much more than 2 per cent, then the housewife is behind the game. "Don't kid yourself," declares R. M. Laverty Sr., chairman of the Thriftimart stores, and the guiding hand behind Blue Chip, "the customer has to pay for the stamps."

The Unknown Giant: S. & H.

If the stamps' benefits to retailers and consumers have often been an ambiguous matter, it is at least clear that trading stamps have been a bonanza to the companies that print, sell, and redeem them. None of the companies have prospered more than Sperry & Hutchinson. By its size, reputation, and experience, it completely dominates its industry. Though not a member of the Trading Stamp Institute of America—it is, says one

competitor, a trade association in itself—it acts as a sort of patron of the institute, supplying it with figures, information, and all the assistance it needs from its own superior staff of economists and marketing men.

Just how big S. & H. really is is a matter of guesswork, since the company is closely held by the Beinecke family, which is willing to talk about anything except its own figures. Some figures, however, have been made public during S. & H.'s many legal battles: in 1953 the company had about $55 million of the industry's $123-million volume. S. & H. seems to have retained something between 35 and 40 per cent of the market during the big boom years for trading stamps; it had perhaps $240 million of last year's $600 million, and will sell perhaps $265 million (out of $700 million) in 1960. The company's profit figures are much harder to estimate. It seems clear, however, that S. & H. makes a very substantial profit, and in three different ways:

First and foremost, the company is almost certainly one of the largest distributors of appliances and "home goods" in the U.S., and its physical volume may approach that of R. H. Macy & Co. The estimate of $265 million of stamp sales for 1960 gives some idea of the physical volume of merchandise that S. & H. will handle. The stamps would fill 100 million books, and the premiums exchanged for those books would cost the consumers perhaps $300 million if they bought the premiums at department stores. S. & H. will pay the manufacturers about $160 million for this merchandise—a figure which suggests, forcibly, that the company makes a larger profit moving merchandise than department stores do. S. & H. gets the goods cheaper because it buys many of them in larger volume than do many department stores, and it has two other advantages over department stores as well: it distributes a narrower variety—about 1,500 items at present, vs. 400,000 for Macy's—and it can get by with appreciably less advertising, promotion, and services.

A Numbers Game

S. & H. also makes a profit out of the fact that not all stamps are redeemed. The company minimizes the importance of this second source of profits, and estimates that 95 per cent of its stamps are eventually turned in for merchandise. The Trading Stamp Institute of America puts the industry redemption rate at "over 90 per cent." These figures have often been disputed. Lingan Warren, the former chairman of Safeway Stores, and a vocal antagonist of the stamps, has said, "I'd accept the 95 per cent figure only if it were audited by three certified public accountants." Some critics of the industry have charged that not more than 60 per cent of all trading stamps that are issued are redeemed. The facts are murky, not only because the stamp companies' books are closed, but also because there is no time limit on redemptions; it is always possible that some of those stamps distributed during the past decade, and not yet redeemed, may turn up in the hands of a family saving for a washer-dryer combina-

tion (which can, in fact, be had from S. & H. for 148 books of stamps; a big family of big eaters might make it in, say, ten years). Meanwhile, the Internal Revenue Service allows S. & H. its 95 per cent estimate for income-tax purposes. The company's reserve for stamps outstanding is now almost $100 million; if the 95 per cent assumption were revised downward, of course, much of this reserve would be treated as taxable income.

Finally, steadily mounting reserves have made S. & H. an extraordinarily liquid company, and also made it possible for outside investments to be an important third source of income. At the end of 1959 the company had over $80 million in cash and securities, and it also has sizable interests in real estate, department stores, and other retail outlets. On occasion, it has even financed some of its own customers.

The sum of all these profitable operations is, of course, hard to estimate. It is widely believed in the industry, however, that S. & H. cleared over $15 million last year; its total earnings worked out to about 6 per cent (after taxes) of its stamp sales—vs. perhaps 3 per cent for a well-run department store. During 1959 the company's book value rose from $36 million to $48 million. S. & H. may well be one of the biggest "unknown companies" in the U.S.

A Birth in Michigan

S. & H. has dominated the trading-stamp industry almost from its beginnings. The company was founded in Jackson, Michigan, in 1896 by Thomas A. Sperry and Shelly B. Hutchinson, who had observed the success Schuster's Department Store in Milwaukee was having with its own stamp plan (which was dropped only last year). Sperry felt that a private company distributing stamps widely among many noncompeting merchants was certain of success, and he persuaded some New England drygoods dealers to take on his plan. In its essentials Sperry's original plan was no different from what S. & H. and other stamp companies are offering today: customers received one stamp for each 10 cents spent in a store, and the filled books were exchanged for merchandise at what Sperry called his "premium parlors."

Most of the stores using stamps in these early years were small and local, but Sperry did have a few big accounts. One of them, as it happens, was the rapidly expanding Great Atlantic & Pacific Tea Co. Until it gave them up during World War I, A&P was, in fact, one of the mainstays of trading stamps.

While Sperry was attracting A&P and others to stamps at the beginning of the century, a flock of imitators came into the stamp business. Many of them were interested only in making a quick killing: their merchandise was shoddy, their redemption machinery was inefficient, and in some cases stamp companies vanished as soon as people began turning up with stamps for redemption. This behavior, on top of the growing hostility of many retailers, led to considerable pressure to outlaw trading stamps. Several state legislatures passed such laws.

These laws hurt the stamp plans, but what really crushed most of them was World War I. With many kinds of merchandise in short supply, retailers saw no point in trying to lure new customers, and thousands of them dropped the plans. In 1914 stamps were given out with about 6 per cent of all retail sales in the U.S.; by 1921 they were given out with only 0.5 per cent. Trading stamps were largely forgotten all during the 1920's. There were some flurries of interest in stamps again in the 1930's, when they were used to get around laws against price cutting; but this interest never developed into a boom, and stamp plans remained small and insignificant until after World War II. S. & H. survived all through these lean years principally by attracting a modest clientele in the drygoods and department-store field.

A Rebirth in Colorado

The industry's second big breakthrough into the grocery field was made in 1951. In June of that year a small Denver chain, King Soopers, Inc., began using S. & H. green stamps in one store. By October it was distributing them in all four of its Denver outlets; according to some accounts, S. & H. primed the pump by giving King Soopers the financial help it needed to take on stamps. In any event, a second Denver chain responded by introducing its own stamp plan, and other chains followed. Within two years, five of Denver's six chains, operating more than forty stores, and a number of independent grocers as well were giving out trading stamps, and a war was on. Most of the stores quickly offered "double stamps." In September, 1953, King Soopers began giving "triple stamps" three days a week, and there was soon a wild profusion of multiple-stamp offers all over Denver, culminating in "quadruple stamps" at one chain late in September. This war was finally halted in early October, 1953, by the stamp companies, which grew fearful of what the war would do to the retailers and ultimately to themselves. They announced that they were going to enforce the provision in the standard contract with retailers, which provides that the latter shall ordinarily give one stamp with each 10-cent purchase. Some of the Denver stores were nevertheless so unhappy about the whole episode that they wanted to get out of stamps altogether. But King Soopers stuck with stamps, and so everyone else had to; stamps are still strong in Denver.

Inevitably, chains in other cities noted the gains made by King Soopers, and began to move to stamps. Not all of this new business went to S. & H. After trying S. & H. green stamps in some of its stores in 1955, with vast success, Grand Union started its own Triple-S stamp company. In 1955, Kroger began its own Top Value plan.

The Battle of Safeway Stores

Among the enemies of stamp plans created by the Denver war was Lingan Warren, then president and general manager of Safeway Stores. In Denver, rather than capitulate, he had cut prices lower and lower; in

consequence, Safeway managed to hold its share of the market throughout the war, but its profits in the area fell sharply. Warren came to hate stamps with a passion, and denounced them in newspaper advertisements in Safeway's trading areas. His legal staff drew up anti-stamp bills for presentation to state legislatures; S. & H. countered with its own political action, which included an organized "spontaneous" march of stamp lovers on the state capitol at Nashville, Tennessee. Safeway's counsel in New Jersey initiated a long and involved suit in that state, contending that under the laws of escheat, unredeemed stamps reverted to the state, and so S. & H. owed New Jersey $7,600,000. S. & H. won this case and almost all the others.

At the height of the controversy, Warren appeared one day in S. & H.'s offices in New York, and offered a deal to Chairman Edwin J. Beinecke: if S. & H. would stay out of Safeway's market areas, Safeway would call off its legal bloodhounds; or, if Beinecke didn't like that deal, Safeway would buy S. & H. from him. Warren was turned down on both propositions, and left Beinecke saying, "Then I'll break you." S. & H. stayed intact, and Warren is now semi-retired, living in his home outside San Francisco (see "Magowan's Way with Safeway," FORTUNE, October 1958). Safeway now uses trading stamps—though not S. & H.—in more than half its stores. Its secretary and general counsel, Drummond Wilde, said recently: "We quit trying to prove our point, though we've never given up on its merits. We couldn't lick them, so we joined them." Today it is Safeway policy to use stamps whenever it has to, for defensive measures. It still refuses to initiate the use of stamps in any market.

The Blue Chip Boom

Though trading stamps seem now to be secure against any legal assaults, S. & H. continues to act as though its existence were in jeopardy. In 1959 the company took some findings of an Agriculture Department study on trading stamps out of context, and ran a nationwide series of advertisements implying, among other things, that the department endorsed trading stamps. Actually, the department had made a neutral finding—that the wisdom of shopping in stores offering stamps was a matter for the consumer to decide herself. (The finding that prices increased by 0.6 per cent in stamp-plan stores was part of this same study.) The department wrote a letter to S. & H. asking it to stop using the study in its advertising.

Some part of S. & H.'s uneasiness is very likely traceable to a recent series of events on the West Coast. The owners of twelve large grocery and drug chains there, all of them veteran opponents of stamps, have formed their own cooperative stamp company, Blue Chip, and have managed to give S. & H. a very hard time of it. At intersections all over Los Angeles, competing gasoline stations have blossomed out with identical blue-and-gold banners proclaiming: "We Give Blue Chip Stamps." In shopping centers the competing supermarkets—including Safeway, A&P, Ralphs, Von's, Thriftimart, and other West Coast giants—as well as drug-

stores, dry cleaners, and even savings and loan associations,[2] fly the Blue Chip flag in a united front. A few months ago there were only a few stores giving stamps—mostly S. & H.—in Los Angeles; today the city is the most thoroughly saturated stamp center in the U.S., and S. & H. is being smothered by Blue Chip.

Blue Chip is not planning to expand outside of California, but its tremendous success there does pose a new kind of threat to S. & H. The Blue Chip experiment has shown not only that cooperative stamp plans work (this had been proved several times already), but that even *competing* retailers can set aside their differences in a cooperative—at the expense of the established stamp companies. In an era when the stamps no longer expand sales—in which they can be used only defensively—many of the retailers may follow the Los Angeles example by setting up their own cooperative plans. For if the stamp plans really are permanent, and if their enemies in the grocery business can no longer count on their just going away, then the stores may well decide to get some of that gravy for themselves.

Meanwhile, S. & H. and other stamp companies will probably be moving into new markets. Department stores are one possible, and wide-open, field, and so are discount houses—there is one in Phoenix, Arizona, that now gives stamps to its customers. And the retailers that give stamps have picked up an interesting new collector: the U.S. Government.

The Biggest Stamp Saver

About a year ago, to the amazement and amusement of several stamp companies, the government decided to become a collector. Comptroller General Joseph Campbell relayed some instructions about stamps, through the General Services Administration, to all federal agencies. Trading stamps are a discount, the Comptroller held, and so should be turned over to the government whenever they are received with government purchases—as they often are under the policy of making small purchases locally rather than through regular channels. Appended to the instructions was a plea that the stamps be held where they were collected and *not* sent on to Washington.

Since then, U.S. Government offices throughout the country have been amassing stamps by the bushel. In Washington, representatives of several agencies were meeting continually earlier this year in an effort to decide what to do with the stamps. Redeeming them was impractical; to send them to Washington, hire clerks to separate them and paste them into books, and then ship them to the stamp companies would cost more than the premiums were worth. The idea of selling the stamps by the pound was also discarded because of the overhead it involved. Finally, in May,

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[2] Like some banks in other parts of the country, the associations give stamps to customers opening new accounts.

the General Accounting Office sent out an order. The stamps are to be used where they are collected, for coffeepots, toasters, sporting goods, or whatever else the local office thinks it may need; if it doesn't think it needs anything, then the stamps are to be turned over to the nearest veterans' hospital, where the patients can separate them and paste them in books as a kind of physical therapy. Later, the hospitals can redeem the books.

52 Coffee Sales Crisis: The Way Out*

Coffee processors are caught in a pricing ratrace. Price and premium promotions are claiming a large share of their ad budgets.

But the industry's biggest need—with other beverages cutting sharply into the coffee market—is institutional advertising.

This extensive report outlines the coffee dilemma and what's being done about it.

While "business as usual" seems—outwardly, at least—to be the general attitude in the $1.28-billion-a-year American coffee industry, several disturbing trends give a hollow note to this casual assurance by industry spokesmen:

Advertising and promotion budgets are continuing their upward spiral as competitive pressure mounts, but an increasing share of these funds is going into cents-off and premium promotions, where media and agencies can't touch it.

Despite the fact that coffee prices are at an 11-year low, national coffee consumption by cups is not keeping pace with population and the growth of discretionary income. Coffee consumption is growing at a slower rate than in the past and at a slower rate than several "alternative" beverages. Annual per capita consumption by pounds is about static at 16.2; 2.2 pounds less than the 1947–49 average.

Consumption of instant coffee is still increasing, but more slowly than during the past few years.

The coffee industry has largely failed in its efforts to get consumers back to the 45-cups-per-pound average yield that prevailed before the 1954 Brazilian coffee failure sent prices to an all-time high in 1955. The current average yield is 62 cups per pound, nearly as high as in 1955.

There have been more coffee company mergers in the past 12 months than in the previous eight years combined. Between 100 and 200 coffee brand names have disappeared in the past two years.

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Certainly the biggest news in the coffee industry today is the round of conferences now going on in Washington for a new International Coffee Agreement. The International Coffee Study Group, affiliated with the International Coffee Agreement but independent of it, hopes to enroll not only all major producing countries but all consuming countries in a new international coffee pact. The current International Coffee Agreement covers only producing nations.

A contract for the agreement is expected to be ready for submission to the governments concerned in April, and the study group hopes to have it in effect by October 1962, or possibly earlier.

One of the primary aims of such an agreement is to give coffee-producing nations, particularly Latin American countries whose primary source of foreign exchange is coffee, a fair return on their produce. This will bolster and help stabilize their economies, it is felt, and make them less easy prey for communism.

Important as such an agreement would be internationally, however, domestic coffee processors seem barely concerned. They are up to their ears in a complicated and frequently deadly competitive situation among themselves. The heart of the domestic industry's internal squabble is the three-year-old price promotion war, which industry spokesmen say is getting hotter now. Most producers admit they are at least nervous about it.

Leading the field is General Foods Inc., New York, whose Maxwell House brand by far dominates the U.S. market. Its Sanka and Yuban brands also hold large portions of the market. All three brands are sold as both regular and instant.

Industry estimates generally rank The Great Atlantic & Pacific Tea Co., New York, as second, with its Bokar, Eight O'Clock and Red Circle regulars, and its A & P Instant. Standard Brands Inc., New York, ranks third, with its Chase & Sanborn regular and instant, and Siesta regular.

Borden's Instant, by the Borden Co., New York, ranks high in the instant coffee market, along with Nescafé, Decaf and Nestlés instant coffees of the Nestlé Co., New York.

I. Cents-Off Problems

Spokesmen for these companies were most unwilling to comment on their companies' attitudes toward price dealing or any other kind of promotion, or about anything to do with their ad budgets. But some things are obvious.

Price dealing is done on a strictly local basis. The retailer never knows when a deal will start until he opens a new shipment and finds the mark-off on the labels of the containers. The price he pays the wholesaler is reduced by the amount of the mark-off.

The grocer must clear his shelves of all regular-priced units of that brand and then sell out the entire cents-off deal before he can resume sell-

ing old stocks at the regular price. He usually gives it good display and features it in local advertising, because he knows special-priced coffee is a good draw. But grocers feel considerable resentment at receiving no advance notice of such deals, and retaliate by keeping inventories of regular-priced coffee as low as possible. This minimizes the amount they will be stuck with if a price-deal shipment suddenly arrives, but it also slows down coffee shipments all along the line.

Coffee industry spokesmen pointed out that it would be impractical to give advance notice of cents-off shipments, because then retailers would hold up their orders to wait for them. The effect is about the same either way, it appears. Coffee premium offers work in about the same manner.

The seeds of the current cents-off war were planted about three years ago by nationally distributed brands as a method of breaking into local markets dominated by strong local brands. The national brand could absorb the revenue loss throughout the rest of its distribution system, while the local brand's entire market was squeezed.

Cents-off dealing has spread now to nearly every local market in the country and is used by virtually every major coffee roaster except A & P, according to A & P officials. The small local coffee roasters apparently have yet to find a means to combat either price or premium deals.

Besides their effectiveness for breaking into new markets, spot price promotions are seen by some industry spokesmen as a way for solid, widely distributed brands to get a bigger share of the market with a lower total ad budget than would be possible through other promotion combinations.

The price promotion has often been criticized, both in the coffee industry and elsewhere. Executive vice-president J. O. Peckham of A. C. Nielsen Co., leading market research firm, said: "Long-term consumer brand franchises are built on sound products and sound advertising, not on price promotions."

Peckham made this statement before the annual meeting of the Grocery Manufacturers of America. He added that: "Continuous use of consumer price promotions cannot be relied upon to increase the consumer franchise of an established brand."

II. Impact on Local Brands

Some coffee industry spokesmen blame General Foods for starting and maintaining the price war, claiming that as Maxwell House goes, so goes the industry.

However, Standard Brands, Nestlé, Borden and other industry leaders are in the vanguard of price dealing, too, and apparently are satisfied with it as a means of promoting their products.

According to the National Coffee Assn., composed of about 165 of the nation's leading coffee roasters, between 100 and 200 coffee brands have either gone out of business or been absorbed by others during the past

two or three years—mostly in the past 12 months. This brings the total down from just under 800 to about 650.

This trend is seen as an obvious defensive reaction to spot price deals, since virtually all of these mergers and business failures have involved small local brands. Many of these smaller companies until recently dominated their own local markets but had no wide distribution to absorb the impact of price promotions by national or strong regional brands.

Among the more important mergers:

Beech-Nut Lifesavers Inc. (Beech-Nut Coffee), Canajoharie, N.Y., bought Martinson's Coffee Inc., New York. S. A. Schonbrunn & Co. (Savarin and Medaglia D'Oro), bought Old Dutch Coffee Co., New York.

Butter-Nut Foods Co., Omaha, Neb., was acquired by Duncan Coffee Co. of Houston, Tex., then Duncan acquired Fleetwood Coffee Co., Chattanooga, Tenn.

R. C. Williams Co., a wholesale grocery holding company in New York, bought the Old Judge Coffee Co., St. Louis, Mo., and Nash's Coffee Inc., St. Paul, Minn.

The Nestlé Co., New York, bought Cain's Coffee Co., Oklahoma City, Okla., which had recently acquired the Manhattan Coffee Co., St. Louis.

Minute Maid Corp. acquired Tenco, a New York instant-coffee processor that serves a number of major brands.

The local nature and surprise-delivery policies of cents-off dealing exclude national or even regional publicity, thus exposing consumers to much less institutional advertising than the coffee industry's $85- to $90-million estimated annual advertising and promotion budget could provide.

Although spot television commercials account for by far the greatest share of coffee ad budgets, National Coffee Assn. spokesmen say price promotions are certainly a major cost factor. Association officials believe that not even the coffee roasters themselves know how much price promotions cost them.

The heavy industry investment in spot television also generally is traced back to the price war. Observers see it as a reflection of the intensely competitive situation in the industry and contrast it with previous industry-wide coffee ad policies that stressed coffee as a beverage, with price secondary.

According to 1960 figures of the Publishers' Information Bureau and the Leading National Advertisers/Broadcast Advertisers Reports (for national consumer magazines and network television advertising), Television Bureau of Advertising Inc. (for spot TV), and Bureau of Advertising, ANPA (for newspaper ads) the seven top coffee roasters in the country spent their 1960 advertising dollars as follows:

General Foods' Maxwell House spot television ads for both instant and regular ran to $6.5-million; ads in other media, $248,000. Yuban, $4.5-million for spot TV; other media, $2.1-million. Sanka (instant only), $492,000 for spot TV; other media, $272,000. Half to three-fourths of this money went to boost the instant versions of these brands.

Standard Brands spent $2.5-million for its Chase & Sanborn regular and instant on spot television, and $1.6-million in other media, with about the same emphasis on instant coffee.

According to the sources named, A & P spent only $366,000 in magazines to boost its coffee. A & P officials explained that their company seldom uses either price or premium promotions for coffee or any other products. Since A & P coffee gets display preference anyway, it was explained, there would be little purpose in such promotions. The giant chain readily retails cents-off coffee of other brands, however. A & P coffee is promoted primarily through general consumer and women's magazine advertisements—more so than any other A & P product, according to company officials.

Nestlé spent $953,000 on spot television for its Nescafé instant, $1.6-million on Decaf instant, and $10,000 on Nestlé's instant. The company spent virtually nothing in newspapers, national magazines, network television.

The Borden Co. spent $89,000 on national magazine and network television advertising for Borden's Instant, and almost nothing on other media.

J. A. Folger & Co., San Francisco, which sells Folger's Coffee—instant and regular—throughout the western and midwestern states, spent $4.4-million on spot TV, $439,000 on newspapers, and almost nothing in other media.

Hills Bros. Coffee Inc., San Francisco, advertised its Red Can Brand regular and Instant Hills Bros. throughout the same general area, as follows: spot TV, $1.7-million; other media, $649,000.

III. Coffee's Direction

National Coffee Assn. spokesmen see a trend among the 16-to-20 age group to consume more soft drinks and less coffee. The cause, they say, is the lack of advertising aimed specifically at making these young people coffee drinkers.

The association also blames current advertising and promotion policies of the industry for the relatively slow growth of coffee consumption generally, and for the poor results of the industry-wide effort to get consumers back to 40 to 50 cups per pound, and to 18.2 pounds annual per capita consumption.

Spokesmen for major roasting companies acknowledged these trends, but said their companies have no present plans to do anything about them. The general comment was that coffee advertising is aimed at selling as much of a particular brand as possible, with no special emphasis on any age bracket or any other particular group. None said they knew of any plans to change these objectives.

One bright spot for at least some local brands, according to industry observers, is that the general trend of the American consumer to buy premium merchandise regardless of price is beginning to include coffee, when the high-quality appeal is made successfully through advertising.

This is the approach that Chock Full O'Nuts has taken, and it seems successful, judging by the brand's rapid growth in the six years it's been on the market, and its spread through 17 states. Chock Full O'Nuts advertising won a "top promotion of the year" sectional award in the annual competition sponsored jointly by Food Field Reporter and Food Topics magazines.

The series that won was based on the line: "We won't kid you. It (Chock Full O'Nuts instant coffee) is not as good as our regular coffee, even though it is made of the world's finest, most expensive beans. However, if you don't have the time, this is the closest you can come to freshly brewed Chock Full O'Nuts coffee." According to Food Field Reporter, the sole criterion for judging the contest was sales activity at supermarket check-out counters.

Another apparent trend is away from big-brand coffee, whether local, regional or national, and toward private brands processed for various grocery chains and sold under their labels, according to some industry sources.

This trend also is attributed to the intensive competition among national brands, since their price promotions and much of their other advertising emphasize price over brand, and since private-brand coffee is generally cheaper than the big brands.

Summary of 1960 coffee advertising by media, in thousands of dollars

	Spot TV	News-papers	National Magazines & Network TV
General Foods			
Maxwell House Instant	$6500	$159	none
" " Regular	combined	$89	none
Yuban Instant	$4500	$1200	$241
" Regular	combined	$496	$199
Sanka Instant	$492	$85	$187
A & P Coffee (instant & regular)	NA*	NA*	$398
Standard Brands			
Chase & Sanborn Instant	$2500	$763	$330
" " Reg.	combined	$453	$85
Nestle			
Nescafe Instant	$953	$1	$1
Decaf Instant	$1600	none	$41
Borden's Instant	none	$1	$89
Folger's (mid and far west)			
Folger's Instant	$4400	$343	none
Folger's Regular	combined	$96	none
Hills Bros.			
Instant Hills Bros.	$1700	$232	$228
"Red Can" Regular	combined	$189	combined

*not available

Source: Publishers' Information Bureau (national consumer magazines), Leading National Advertisers/Broadcast Advertisers Reports (network television), Television Bureau of Advertising, Inc. (spot television), and Bureau of Advertising, ANPA (newspapers).

Some industry spokesmen say price dealing actually destroys brand image, and the trend toward private brands at consistent, lower prices seems to support this.

The price war is also generally blamed for the "soft" price market for coffee, which has persisted for at least two years in spite of record low coffee prices generally. There are strong indications that heavily price-promoted brands find it increasingly difficult to sell coffee at "regular" prices.

This kind of market situation makes it extremely difficult for individual companies to spot consumer trends. A spokesman for one major

company told PRINTERS' INK this week: "We might be able to establish a few useful buying patterns now if there were less price dealing, but every major brand and nearly all strong local brands are doing it, so you really can't tell what the consumer is thinking."

IV. A Survey

In an effort to dispel some of this fog, the National Coffee Assn. is in the midst of a "beverage preference" survey, which purports to carry the torch for no particular beverage, but which quickly turns out to be a study of coffee drinking habits or the lack of them.

Nearly 3,000 depth interviews in this nation-wide, $70,000 study have now been completed, but processing began only last week (December 8) and results will not be announced until late this month.

Preliminary indications are that high-yield brewing habits of consumers and the youth market's increasing preference for soft drinks are the primary causes of lagging coffee sales.

The survey is expected to indicate that most unmarried Americans between the ages of 16 and 20 who drink coffee at all drink it primarily in restaurants and from vending machines, and drink something else at home. Also, those who do make their own use instant coffee much more than regular.

Others in the coffee industry are aware of these general trends and among those planning to do something about them is the Pan American Coffee Bureau, whose members include all coffee-producing countries in Latin America. The bureau plans to spend $4.5-million through Batten, Barton, Durstine & Osborn in 1962, urging Americans to drink more —and stronger—coffee.

A good part of it will concentrate directly on the youth market. The bureau claims this will be the first coffee advertising in the United States aimed specifically at this group.

The National Federation of Coffee Growers of Colombia is also planning heavy institutional advertising, spending $1.2-million through Doyle Dane Bernbach next year on it. Juan Valdez campaign, an increase of $200,000 over last year. The campaign boosts the use of Colombian coffee in blends to produce better flavor.

This increased institutional advertising by the Pan American and Colombian associations reflects their concern at sagging U.S. demand for Latin American coffee.

One contributing factor, most industry sources agree, is the increasing use of instant coffee, which yields more cups per pound of raw coffee beans, and also uses a much lower percentage of Latin American coffee in its blends.

More than 50 per cent of the beans in virtually all instant coffee blends are African, mostly the strong-flavored "Robustas" variety, according to one well-qualified industry spokesman. Thus, wider use of instant coffee stimulates demand for African beans, reduces demand for Latin American

beans, and lowers total demand to the extent that instant coffee stretches further.

According to Annual Coffee Statistics bulletin, published by the Pan American Coffee Bureau, 1960 imports from Latin America dropped 6.9 per cent in pounds, 11.5 per cent in dollars. At the same time, African imports rose .8 per cent. Total coffee imports to the United States dropped slightly in 1960.

V. Building Instant

Instant coffee is at least 40 years old, but until the 1955 price crisis there was little public demand for it and thus little incentive to improve it enough to compete seriously with regular coffee. Instant coffee's share of the American market by cups rose from 8.1 per cent in 1951 to 23.8 per cent in 1960, according to Annual Coffee Statistics, with the biggest jump between 1955 and 1956, the year of the price crisis.

From that point, demand for instant has increased steadily, slowing down significantly only in the past year. Current predictions give soluble coffee 50 per cent of the total coffee market within 15 years, but most sources hinge this on further product improvements.

Most current research to improve instant coffee emphasizes aroma, which is nearly non-existent now. Since the human olfactory system is intimately connected with the sense of taste, odorless instant coffee is at a distinct disadvantage to regular coffee, most of which is highly aromatic.

Second in instant coffee research priority is hydroscopidity, the unfortunate tendency of instant coffee to absorb moisture from the air once the container has been opened, and then gradually to deteriorate and lose flavor.

Better accepted instant coffee is largely dependent on these two factors, but separate efforts to improve basic flavor also are being made by most companies.

Promotions for instant coffee have been getting more funds from ad budgets than regular coffee and have generally followed the same patterns. The main difference is the emphasis on instant's convenience.

Ad campaigns for both instant and regular often stress proper preparation. Instant-coffee advertisers are urging consumers to mix more than one cup at a time—preferably six or more—to improve flavor. To this end, Maxwell House is currently offering its largest-size instant in a heat-resistant glass carafe.

Mixing instant coffee in large quantities, it is claimed, improves the taste. Letting it stand a few moments and then gently stirring is said also to improve flavor. Of course, industry spokesmen admit, any that's left over and thrown away naturally helps boost sales.

At least three major coffee producers are making serious efforts to introduce instant coffee in restaurants, schools, hospitals and other institutions. Salesmen are being trained to demonstrate new equipment specifically for institutional preparation of instant coffee, and to teach per-

sonnel to use it. Claimed advantages of instant coffee in restaurants and other institutions include convenience, speed, easier cleaning and maintenance of equipment. Instant, it is explained, need not be made in the large batches necessary for regular, since it can be made quickly and easily any time it is needed. This eliminates stale coffee, which is a problem in many food-serving installations.

The Coffee Brewing Institute Inc., New York, only several years old, trains coffee company salesmen to use institutional-type equipment to make both instant and regular coffee, so the salesmen may then train institution employees. The Brewing Institute claims that many restaurants are willing to pay up to two cents more per pound for ground coffee to companies that will train their personnel to brew it properly.

The short-range advertising outlook for instant, however, is perhaps less stress on promoting it over regular coffee. This would reflect the slower growth of instant this year, despite heavier advertising.

There seems no let-up in sight for the severe pace the industry has set itself in price and premium promotions. "We may never return to normalcy as we once knew it," Jack R. Durland, chairman of the National Coffee Assn., said recently. "We must learn to live in this intensely competitive atmosphere."

The National Coffee Assn.'s coffee-drinking survey should have some impact on the objectives of coffee advertising, but the extent to which individual companies can afford to divert funds to more product advertising will be sharply limited by the demands of the price and premium war. Perhaps the association will take matters into its own hands, levy funds from its members and buy product advertising itself to help put the coffee industry on a sounder marketing base.

53 Elasticity And Empty Seats*

Will lower fares stretch the airlines market? Will higher fares shrink it? That's the argument currently raging—with Continental, as usual, taking the minority view.

Among U.S. airlines, Robert Six' medium-sized Continental Air Lines has been shaping up as something of a maverick this year.

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Last summer it stubbornly refused to join the industry in eliminating food and liquor service from its coach flights, and so scuttled the proposed economy move.

Last month Continental plunged squarely into the midst of another airlines controversy—and, as usual, took the nonconformist point of view. The controversy centered around the argument as to whether the airlines' market was, or was not, price elastic. An *elastic* market, to put it in ordinary English, is one where a cut in prices will stimulate demand to a considerable degree; an *inelastic* market is one where price changes either way will make little difference to the volume of business.

Slow Growth

Everyone was agreed that the airlines business had shown distressingly little elasticity in recent years. Airline traffic had grown at the rate of 18% a year between 1950 and 1957, but thereafter slowed to 6% and came to a dead halt in 1961. The big question, therefore, for the Civil Aeronautics Board, whose job it is to fix fares: Will a cut in fares start the traffic curve rising again; or is the market so inelastic that fares can be raised without costing the airlines much traffic?

Continental, almost alone, was fighting solidly for the lower fares argument. "The nominal rate of growth experienced over the past several years," Continental last month told the CAB, "has resulted in a critical financial position for the airlines industry. We have reached the crossroads wherein some action must be taken to increase substantially the total air travel market." Continental's solution: not an increase in fares, but a third "economy class" service, priced 25% below existing coach fares.

Setting Up a Howl

Almost to a man, Continental's competitors set up a howl. United Air Lines, the largest carrier, termed the proposal "unjust and unreasonable." The resulting losses, declared President William A. Patterson's statement, "may make it impossible for a large section of the industry to meet its fixed obligations. This can only mean bankruptcy. . . ."

Trans World Airlines called the plan "the most unreasonable and ill-considered proposal ever submitted to the Board," but, like American Airlines, filed a competitive tariff anyway. United refused to do so. The proposal, United charged, is "a device to give [Continental] a temporary advantage in an effort to reverse its rapidly deteriorating participation in the competitive markets which it serves. It is a move of desperation. . . ."

Continental's boss Bob Six shot back: "Continental successfully competes with the three largest transcontinental carriers over the major part of its system, doing so with the highest operating profit margins of any trunkline carrier [Continental's 9.2% as against 4.6% for United]."

Continental noted that private auto traffic was 14.7 times that of the airlines industry in 1960, and insisted that lower rates would draw large numbers of people out of their cars and into the air. "Underlying the multiple attacks on this plan to stimulate new air travel," said Six, "is the apparently common belief . . . that air transportation has lost its potential for further penetration of the competitive travel market." Added Six: "There is substantial evidence that growth has been retarded to a marked degree by the considerable increases in the level of fares that have occurred in the past several years. . . . Fare levels today are 16.4% higher in first-class and 34.8% higher in coach than they were in 1957, coincidently the last year in which the industry realized a substantial growth in traffic."

Can You Beat the Auto?

United pointed out, however, that the principal remaining competitor of the airlines was the private car, and it confessed it had little hope of tapping that market. "The airlines cannot carry two to six passengers at the out-of-pocket costs ordinarily associated with the operation of the family automobile. . . . Merely to replace [the revenue lost through economy fares] would require the generation of 33⅓% more traffic above current coach levels, or 5,936,000 new passengers."

The Matter Rests

After considering the arguments, the CAB, by a three-two vote, suspended Continental's plan, not because the approach was absurd, as United argued, but because "there is substantial question as to the economic validity of the proposed fares if applied to the industry as a whole."

There the matter rested—with an apparent victory for the high-priced fare adherents. But it was no secret last month that the CAB was still sympathetic to the low-fare argument, and the betting was that the airlines industry had not heard the last of the elasticity dispute.

54(A) How Detroit Figures Auto Prices*

Chances are that no automobile dealer, busy as he is trying to attract the attention of the bashful spring buyer with the lure of falling

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prices will quote a tag as low as what he pays the factory. He tries—but hardly ever succeeds—to get a price one-third more.

So those prices are the absolute floors, below which dealers will go only at peril of bankruptcy, even if the market situation turns a lot more desperate than it is now. And even in the search for a big spring market, the manufacturers most likely will not cut their own prices to the dealers to give the retailers any more trading room.

That is one of the characteristics of the automobile pricing system that sets it apart from other industries.

Confession

Factories in the past have changed wholesale prices during the model year—Chrysler cut a few years ago—but it is an exceedingly rare thing, for such action generally connotes a miscalculation of such proportion as to endanger a company's future. The only other explanation for a factory price cut in midyear would be a gigantic change in the nation's economic status.

Factories do, in effect, cut their wholesale prices—but as a normal rule only toward the end of a model year and only after a magic barrier has been crossed. That barrier is something called the "standard volume." An understanding of those two words is an understanding of the automobile business and how its unique distribution setup functions.

Such an understanding, too, makes it clear that there is a rigidity about Detroit's pricing system making it imperative for auto companies to defend like grim death their factory list prices—up to a certain time of the year—and then engage in some wild fluctuations in the market place. In part, this rigidity stems from (1) the heavy investment costs of making autos and (2) the seasonal and cyclical swings in production schedules peculiar to the industry.

STANDARD VOLUME CONCEPT

The concept by which factories set wholesale auto prices hasn't changed in more than 30 years.

The "base price" of automobiles at General Motors' factories, for instance, means the same thing today as it did when Donaldson Brown and Albert Bradley created the standard volume concept in the early 20s. Volume in this context has nothing to do with a sales manager's estimate of how many cars he will sell in a year. Volume to Detroit's pricing people is related to the capacity—ability to produce—of the manufacturer's plants.

Hypothetical Case

Assume you are just entering the automobile business. The first step in determining standard volume is to plot the total auto market for some

years back and some years ahead (there is no commonly accepted span of years). This gives you a curve representing the trend of market demand over the years. Then you determine what percentage of the market you should have and plot your own average market through the years to come.

Now you have to assume that at some point during those years the market peak demand will be above that curve. But by how much—10%, 15%, 25%? That is where you have to use judgment arbitrarily. Assume the peak demand is set at 25% above the average trend of demand. That means you build a plant with capacity for 125% of the production as it will average out over the years. Accordingly, your average production —again over a period of years—will be 80% of the plant's practical capacity. That 80% becomes your standard volume.

Starting Point

Here's how it would work out: You want a plant that will give you a practical capacity of 1-million cars a year. Your standard volume then would be 80% of that, or 800,000 cars. This average figure of 800,000 cars a year becomes the basis of your pricing system. Your problem is to set prices so that you will cover all your direct costs, plus the cost of the plant if it operates at an average rate of 800,000 cars a year over the course of its usable life. Some years, of course, it will turn out more than 800,000 and some years less. But by pricing on the basis of 800,000 you insure that you will (1) make the return you want over the life of the plant and (2) have enough margin of extra capacity available to handle the peaks of the market as they occur.

Totaling It Up

You figure your costs exactly on the basis of producing 800,000 cars a year, including what you would have to pay for all materials and all direct labor, plus overhead, allowance for depreciation, amortization, and taxes. Assume your total bill for the 800,000 cars comes to $800-million. Each car actually costs $1,000.

You have to have a return on the money you used to establish the facilities to build the cars. GM's goal always has been a 20% return on investment.

At this point, you have a factory cost of $800-million. Then you have to figure out how much working capital you need and what your fixed investments are. This is the figure to which you apply the 20%. You then calculate your selling expense on 800,000 cars. Together all these things might add up to 25% of the factory cost.

Then your "base price" would become 125% of the factory cost—or $1,250—just as long as you don't change your profit goal.

A Gamble

But this $1,250 is not necessarily the wholesale price of your car. You have to consider the competitive factors.

THE DILEMMA

The mythical $1,250 factory price is what you would like to get in order to yield your 20% return. But your competitor has a car that seems equivalent in value to yours. And he sets his price at $1,200.

In theory, of course, you could sell your cars for $50 more than your competitor. Both you and he are selling to a captive market—the dealers. Your dealers may think your price is too high—but, if they want cars at all, they have to pay it. In practice, though, your dealers would either die of financial malnutrition or switch their franchise—because their customers are not a captive market, and they would have to absorb the difference.

Avoiding a Giveway

Your choice then is deceptively simple. At a price of $1,200 per car, you are giving away $40-million—$50 on every one of the 800,000 you need to make your standard volume. You have to figure on selling about 33,000 more cars to get it back, or find some way to squeeze $50 out of the cost of your car.

Competitive pressures in pricing can work in reverse. Last fall Ford announced its 1957 prices before Chevrolet did. Ford prices, on the average, were something less than 3% higher than in 1956. Chevrolet prices turned out to be about 6% higher. So Ford—in one of the few examples of a company changing a price already announced—revised its scale upward. "We found," says a Ford man, "that we were giving away $20-million to Chevrolet."

Counterbalances

The one significant thing to remember about the standard volume concept of pricing is that as long as your capacity—say to make 800,000 cars a year—is unchanged, your costs change only with changes in the costs of materials and labor. Over a given period of years, your standard volume would never change. Accordingly, you could weather changes in the economy. In a poor auto year such as 1954, you may fall below your standard volume and, instead of getting a 20% return, get only 10%. In a boom year such as 1955, you may shoot far above standard volume in output. Your price base would be the same, and the two years would balance out in return on your investment.

This is what makes the automobile business about as risky as a weekend in Las Vegas. If sales exceed your standard volume, you make extra profit

at a fabulous rate; if sales fall short of the standard volume, profits dip disproportionately. For example, if you need to sell 800,000 cars to meet all expenses and get a fair return on investment, and you wind up selling 1-million, those extra 200,000 cars are all profit—except for the direct material and labor cost involved.

Look at it this way: Actual labor and material costs account for only about 75% of the sales dollar. On the standard volume alone, you net 8% of selling price; on all cars above the standard volume, you net 25%.

However, the reverse also is true. If you fall short of standard volume in sales, your profit slips at a fearful rate. Look at what happened to the Big Three in the past two years:

Percent Change over Previous Years

	Chrysler		*Ford*		*GM*	
	1955	*1956*	*1955*	*1956*	*1955*	*1956*
Unit sales	+79	−32	+31	−25	+32	−19
Dollar sales	+67	−23	+38	−17	+27	−13
Profit	+440	−80	+92	−46	+48	−29

TIME FOR A CHANGE?

In a very good year, such as 1955, an auto company will sell its standard volume quickly—reportedly in that year General Motors had sold its standard volume by the end of July. After that, it customarily splits some of the extra return with its dealers.

Practices vary. To help dealers through the "clean-up" period (roughly August through October) before introduction of a succeeding year's models, some factories will run incentive contests among dealers, with a bonus for every car above a certain number. Other companies have a sliding scale of increase discounts, based on when the dealer orders from the factory. General Motors gives an extra 5% discount to dealers for all cars (and trucks) in their hands on the day the new models come out. For a Chevrolet dealer, as an example, this means a 29% discount, instead of 24%.

This isn't entirely altruistic. After the standard volume has been made, it is to the factory's best interests to keep production rolling until the last possible day before the plant must go down for model changeover.

Possible Modifications

There is, however, a feeling among the very small group of Detroit experts in pricing theories that perhaps some modifications in the standard volume, either in concept or in application, are due. This involves two matters: cost of adding capacity, and market potential.

First, take the cost of new capacity. No auto company will say what its standard volume percentage actually is. But there are indications that although it hasn't been revised for a considerable number of years, it is

now being moved upward. In other words, auto companies are recognizing the facts of modern production life. The traditional standard volumes (as a percentage of capacity) were established when labor was relatively more important in total cost than capital investment. Thus, it made sense to keep your overtime labor costs down by spreading your capital costs over a lower percentage of capacity—the standard volume—than is feasible today. Up to now, a company found itself able to afford excess capacity of, say, 20% over the standard volume as a means of protecting its market position in all the seasonal and cyclical fluctuations. It could pay for that 20% of sometimes idle capacity by figuring the cost of it as part of the standard volume price.

Competitive Woes

Now, though, with plant and equipment costing so much more, you have to add so much more to the standard volume base price to buy that 20% protection that it throws your prices out of line with (1) a competitor who may have older capacity and (2) the general price picture of the whole economy.

So what you do is refigure your standard volume by changing the percentage—from 80%, say, to 85%.

This is risky, if you are determined to maintain your market share regardless of how auto demand swings in a season or over the years. It means that you are betting that such swings won't actually be so wide as the industry, using an 80% standard volume, has assumed. Both Ford and Chrysler in 1955 form good examples of what can happen. They were in a bind because they actually did not have enough capacity to take full advantage of a swing.

You have to remember that market position is important—it can affect acceptability of your car to the public and hence influence used car prices that give dealers room for trading.

More Buyers

But it may be that auto companies will have to live with that risk for still another reason. Total market potential is slowly creeping up for new cars—more slowly by a great deal, apparently, than Detroit had expected—but still it is moving upward. So new capacity is a must, again to maintain your share of the larger market. But with costs so high, it is difficult to get back your normal 20% return on investment. In figuring out your base price, older equipment still gives you 20% on the investment of 20 years ago. But on facilities built in 1957–58 extra efficiency isn't enough to make up the difference.

Thus some auto companies find themselves in a strategic squeeze. They have to raise their standard volume percentage in order to spread costs over more units (1) because of price competition with a more favorably situated competitor and (2) because the increasing market

requires added capacity, which is out of line in cost under the old standard volumes.

54(B) How Does the Auto Industry Set Car Prices*

Here's a breakdown showing how one manufacturer figured the price tag on a new model before it went on sale. It tells you where the money goes—how much covers cost and how much covers mark-up.

Back in January 1958, Estes Kefauver raked the auto industry over the Senatorial coals for its policy of "administered pricing." Although no collusion was charged, his committee obviously felt a leader (namely GM) set prices and others followed the pattern. His report on the hearings made it plain he didn't realize auto costing is a painstakingly detailed process—firmed long before the car gets into production. Here's how one company does it.

Original price of Ford's Falcon, for example, was set at $1383, based on an average of body styles and the expectation of 275,000 sales a year for three years (before first changes in such major components as body shell and engine). Months later, when the Falcon went into production, this figure (called "Financial Planning Volume") had increased by only $16.

Net average profit per car was set at $163. Ford Division had fixed its sights on this figure months back and it was based on an average anticipated selling price to the dealer of $1546. This does not seem excessive—nor does the parent Ford Motor Co.'s expectation of $253, which of course includes the Ford Division profit. Even the latter figure is considerably less than dealer mark-ups.

The higher profit for the parent company is due to intra-company sale of such manufactured components as transmissions. By subtracting the Ford Division profit from the Ford Motor Co. profit, you can see that $90 profit is divided among the manufacturing divisions.

Breakdown of the $1209 in variables shows the largest share, $994, going for materials and components. Direct labor costs of $58 indicate surprisingly few man-hours needed to assemble the vehicle. Other items

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include: transportation $79, manufacturing overhead $35, advertising $24, and warranty $17. Fixed costs total $174, including amortization of tools and facilities—a substantial part of the $100-million bill for bringing the Falcon to market.

The styling department can take pride in its miniscule charge of $2 per car. Engineering cost 10 times as much. Tooling supplied to vendors cost $8, and fanfare of introducing the car $6.

Put into perspective, three things stand out:

First, Ford cannot be fairly accused of greediness. A 10.6% mark-up is not much return on a $100-million gamble. Small loan companies often charge more for money, with a lot less risk.

Second, the timing involved in arriving at Financial Planning Volume indicates there can hardly be collusion. On-the-surface similarity among car prices results from this: One 3000-lb car takes about as many dollars worth of materials and man-hours as another. And it must be remembered, these are the two major cost items in any car. In any case, FPV is established before a car goes on sale—and only the market place can prove whether it's right or wrong.

Third, everything is predicated on reaching the financial volume. Falcon sales are humming along well above this volume. In other words, Ford is making more than anticipated on each Falcon.

But what about other products made by Ford Motor Co.? FPV for the standard-size Ford, for example, is pegged at 1-million units—and production since the start of the year is already off 143,000 compared to the same period in 1959. Falcon's success may account for a considerable portion of this loss, thus stealing sales from a car that returns about 30% more profit.

Like every auto company, Ford has misjudged the market on occasion. It sank $300-million into the Edsel over three model years, and never even came close to reaching financial volume. The same thing happened with the Continental of 1956 and 1957. Today, the same circumstances surround Lincoln and Mercury operations.

PART EIGHT

LEGISLATION

55

FTC Blow at C-P, Bates Won't Alter Ads Much*

BY STANLEY E. COHEN

Ruling Applies to 'Any Product' in Hitting TV Devices, Citing 'Methods.'

In what obviously is intended as a landmark decision for tv advertisers, the Federal Trade Commission, reversing a hearing examiner's ruling, held unanimously today that the controversial "sandpaper" commercial for Colgate-Palmolive's Rapid Shave cream went beyond puffery and into the area of unfair and deceptive advertising.

Noting that a Plexiglas mockup had been substituted for sandpaper, FTC said it is clear from the record that Rapid Shave will not shave sandpaper in the manner depicted on the air.

Even if the product had the moistening properties which the demonstration purports to prove, FTC said, the use of a mockup which does not actually do what it claims to be doing is unfair to Colgate's competitors and the consuming public.

"Perhaps some consumers will be content with a product purchased in response to such a deceptive 'come on,'" FTC said, "but that is hardly legal justification for it. It could not atone, for example, for the injury to a competing shaving cream manufacturer, whose product might have fared better in the marketplace had respondents [Colgate-Palmolive Co. and its agency, Ted Bates & Co.] adhered to honest and fair advertising practices."

The decision was noteworthy in two major respects: First—in the order itself—for the unusually broad and hard hitting inhibitions which it places on Colgate and Bates. Secondly—for the extensive exposition by the commission of the kinds of tv practices which it regards as deceptive.

Among the touchy points covered in the decision:

Scope of FTC Orders. FTC will not be satisfied merely to ban a specific act. Orders will be broad enough to root out the use of "methods" and "practices" which are found to be deceptive.

Use of Props. Props or mockups must not be used if they purport to illustrate a material characteristic of the product.

"If the respondents do not believe they can effectively market their product

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on television within the legal requirements of truthful advertising, it does not follow that the commission should relax those requirements," FTC said.

Puffery. Puffing (which the examiner's ruling had found to be "harmless" and non-deceptive) is understood to be an expression of the seller's opinion only. It does not embrace misstatements of material fact.

Bad Ads for Good Products. Even if the consumer gets value for his money, it's unlawful to use deception to make the sale. The consumer is entitled to get what he thinks he is buying; and competing business men are entitled to fair competition in the marketplace.

Ad Agency Liability. Agencies are within FTC's jurisdiction. When they propose a campaign, they can't claim to be merely "agents."

By 5–0 vote, the commission approved an unusually broad order directed at both C-P and Bates. The companies had contended no order was warranted; that in any event, the order should apply only against tv demonstrations for Rapid Shave.

But FTC said the violations couldn't be treated as "isolated discrete phenomena." The increasing number of cases involving tv commercials indicates "the prevalence and growing seriousness of the problem," the commission observed. Citing other cases involving Colgate and Bates, it added: "It is a problem with which both respondents have had prior experience."

Under the order, both companies are prohibited from "purporting to prove" the merits of "shaving cream or any other product" through pictures, depictions and demonstrations "when such pictures, depictions and demonstrations are not in fact genuine and accurate representations, depictions or demonstrations of, or do not prove the quality or merits of, any such product."

On the second count in the order, FTC backed off somewhat from the broad staff recommendations. Where the first portion of the order applies to "shaving cream or any other product," the second part of the order specifies that, with respect to "Palmolive Rapid Shave cream or any other shaving cream," neither organization shall misrepresent "in any manner, directly or by implication, the quality or merits of any such product."

The companies have 60 days in which to signify compliance, or appeal for court review.

While several cases involving disputes over tv demonstrations have been settled by negotiation in the past, only a handful have come before the commission for judgment. In this first case since three Kennedy-appointed commissioners took office in 1961, the entire commission concurred, as newcomer Philip Elman spelled out the commission's views in detail.

The three similar commercials challenged by FTC had been used in late 1959, but were taken off the air soon after FTC's complaint was issued in January, 1960.

In the ads Rapid Shave was applied to what purported to be sandpaper

and shaved off in a single stroke. Actually, FTC found, a Plexiglas mockup had been substituted for sandpaper.

Colgate and Bates contended the Plexiglas was substituted because sandpaper photographs badly. While the facts in this case may be trivial, Commissioner Elman replied, this defense raises the broad question as to whether mockups and props may be used to demonstrate qualities claimed for products, "where the audience is being told it is seeing one thing being demonstrated, while actually it is seeing something different."

He said FTC is skeptical about tv's alleged limitations. If there are such limitations, he said, they may constitute a challenge to the ingenuity of copywriters "but surely they could not constitute lawful justification for resort to falsehoods and deception of the public."

TV's Job Isn't Selling

"The argument to the contrary would seem to be based on the wholly untenable assumption that the primary or dominant function of television is to sell goods, and that the commission should not make any ruling which would impair the ability of sponsors and agencies to use television with maximum effectiveness as a sales or advertising medium.

"Stripped of polite verbiage," he contended, "the argument boils down to this: Where truth and television salesmanship collide, the former must give way to the latter. This is obviously an indefensible proposition. The notion that a sponsor may take liberties with the truth in its television advertising, while advertisers using other media must be truthful, is patent nonsense."

The decision brushes off the contention that FTC is demanding a situation where no tv props will be tolerated.

"No one objects to the use of paper mache sets to represent western saloons or an actor's drinking iced tea instead of the alcoholic beverage called for by the script," Commissioner Elman wrote.

"The distinction between these situations and the one before us is obvious. The set designer is not attempting, through his depiction of a saloon, to sell us a saloon, nor is the actor, sipping at his drink, peddling bourbon."

Turning to hypothetical situations where props are used in commercials, he said, "There is a world of difference between a casual display of steaming 'coffee' that is really heated red wine (again because of television's technical difficulties), and a commercial showing a closeup of what is actually red wine, to the accompaniment of a claim that the high quality of the sponsor's coffee is proved by its rich, dark appearance—which the viewer can verify for himself simply by looking at the 'coffee' on the screen.

"Similarly," he said, "an announcer may wear a blue shirt that photographs white, but he may not advertise a soap or detergent's 'whitening' qualities by pointing to the 'whiteness' of his blue shirt.

"The difference in all these cases is the time honored distinction between a misstatement of truth that is material to the inducement of a sale and one which is not."

An initial decision by Commissioner William Pack last May (AA, May 29) said the sandpaper commercial was nothing more than puffery. But today the commission said the examiner's decision raised the wrong questions and reached the wrong conclusions.

"Puffing," FTC said, "does not embrace misstatements of material fact." These commercials "represented, unqualifiedly, that Rapid Shave will dramatically facilitate the shaving of sandpaper and that they were demonstrating this fact before a television audience to prove it. Both of these are factual representations: Neither is true."

The examiner's decision last May said the use of the mockup represented nothing more than "harmless exaggeration or puffery." He said the product contains "at least adequate" moistening or wetting properties, and that it really will shave sandpaper if enough time is allowed.

"Obviously," he said, "the sandpaper sequences were employed simply for the purposes of emphasizing and dramatizing the recognized moistening or wetting properties of the cream. It is difficult to believe anyone could have been misled as to the properties or qualities of the product."

Commissioner Elman, however, set up two different questions to consider:

1. Was there a misrepresentation as to the moisturizing qualities of the product? Specifically, can it shave sandpaper in the manner described in the commercials?
2. Assuming there was no misrepresentation as to the effectiveness of the product, was it deceptive to the public and unfair to competitors to prove the product's "super moisturizing" power by conducting a test using what the public had every reason to believe was sandpaper, but which actually was a Plexiglas mockup?

To underline the importance of his first question, he said, "If the public is to be induced to purchase a shaving cream by representations as to its effects on sandpaper, those representations must be true."

For purpose of argument, he said, FTC will assume, as Colgate implies, that there necessarily is a relationship between ability to shave sandpaper and ability to shave whiskers. In this context, he argued, "If the respondents misrepresent the extent to which Rapid Shave, when applied to sandpaper, permits it to be shaved quickly and cleanly, they undoubtedly engaged in a form of conduct proscribed by the statute."

From the record, he said, FTC finds sandpaper cannot be shaved by applying Rapid Shave in the manner, and for the length of time, depicted in the commercials. He said that (1) sandpaper of the coarse variety depicted in the commercials cannot successfully be shaved in the abbreviated time allowance in the commercial, even by employing a number

of strokes under heavy pressure; (2) sandpaper of this kind cannot successfully be shaved in one to three minutes after applying Rapid Shave, even with a number of strokes under heavy pressure; (3) no piece of sandpaper of this coarse grade has been shaved "genuinely clean," like the mockup, despite an hour of soaking with Rapid Shave; and (4) one reason why sandpaper was not used was that it required too long a soaking period before effective shaving was possible.

It is beside the point, he said, that some types of sandpaper, in some circumstances, can be shaved. "These commercials conveyed the impression that very coarse grades of sandpaper could be shaved immediately after Rapid Shave was applied," and "this simply is not possible."

Colgate had argued that the word "soak" in the audio portion of the commercial necessarily implied the passage of time. But Commissioner Elman insisted the viewer is almost unaware of the word, since the action that accompanies it flows rhythmically along without discernible pause.

"The commission observed these commercials with an educated eye," he emphasized, "forewarned that, from respondents' standpoint, 'soak' was a key word in the announcer's spiel. Even so, the word failed to convey to us the impression that respondent's counsel urged for it. How much less a flag of caution must it have been to the uninitiated gazing at their sets, perhaps casually or distracted by other household activities."

His second question, he said, touched on the issue most heavily stressed in the appeal: that the use of a Plexiglas mockup instead of a sandpaper was not deceptive, because it claimed no quality which Rapid Shave does not actually possess.

"The heart of these commercials," Commissioner Elman wrote, "was the visual 'sandpaper test'—a test that was, in reality, not taking place. This would be deceptive and unfair advertising even if Rapid Shave was as effective in shaving sandpaper as respondents represented."

Respondents have argued, he noted, that if their product will do to real sandpaper all that the mockup demonstration claims for it, the consumer has not been induced to buy a product less valuable or meritorious than what he thought he was buying, and therefore has not been hurt in any substantial way. But, he replied, this has not been the test of what constitutes material misrepresentation under the statute.

This principle, he said, flouts the logic behind a variety of long-established cases, among them the findings about erroneous sources or origin for a product; or failure to disclose that a product, though good as new, has been repossessed; or deceiving the public into assuming one is in a certain line of business when one is not. "The vice assailed in these cases is the use of a falsification to sell that product, whether or not it may deserve to be bought on its own merits."

As an illustration, he cited a situation where "before" and "after" pictures are used to sell an obesity remedy. "If these photographs are faked," he said, "it would obviously be no defense that the product is an effec-

tive appetite depressant and could in fact bring about the reduction in weight as represented in the faked pictures.

"The point is that the 'proof' offered was a material element of the advertising; without it, the advertising might not have succeeded in selling the product; and, in fact, the 'proof' was not proof at all.

"The short of the matter is that the public and honest competitors are entitled to the protection which the law gives against such unfair and deceptive advertising practices."

Turning to the Rapid Shave sandpaper commercial, he said the pictorial test proved to any Doubting Thomas that, "By golly, it really can shave sandpaper." This was the clinching argument, conducted, as the announcer said, "to prove Rapid Shave's super moisturizing power."

Truth Test

"Without this visible proof of its qualities," Commissioner Elman wrote, "some viewers might not have been persuaded to buy the product. One need only consider the differences in the impact of these commercials on viewers had they been told, honestly and truthfully, that what they were seeing tested was a Plexiglas mockup rather than what they thought and were told they were seeing—namely sandpaper. The difference between telling and not telling the truth could, in this instance at least, have been the difference between an effective and ineffective sell. In such circumstances the claim of harmless exaggeration is rather hollow."

FTC brushed over the argument that it has no jurisdiction over the Bates agency, and that in any event the agency should not be held responsible for the campaign.

In other cases, FTC noted, courts upheld the commission's authority over the allocation of sales time in tobacco warehouses, over false ads to recruit salesmen preliminary to an interstate sales campaign, and over financing transactions between auto dealers and their customers.

"In the light of the precedents," the decision said, "one can hardly doubt the commission's jurisdiction over an enterprise so basic to the flow of goods into the national market."

FTC said it finds it "a curious contention" for Bates to profess that it is merely Colgate's agent.

"Bates not only carried these commercials to the television network; it originated the idea for the 'sandpaper tests' in the first place.

"We know of no doctrine that permits one to evade liability for actions for which he is as directly responsible as this, regardless of whether he acted solely in his own interest or also for the benefit of another," the ruling said.

Bates also pleaded that it did not know the demonstration would be regarded as false. FTC replied, "It is so well settled that there is no

necessity to prove intent to deceive in establishing a violation of the act that this contention can only be regarded as frivolous."

56(A) P&G Must Dispose of Clorox, FTC Is Told*

P&G Ad Power Builds Brand, Forces Rivals to Merge, Says Examiner.

A Federal Trade Commission hearing examiner ruled today that Procter & Gamble has so much merchandising know-how and advertising power that it should be required to dispose of Clorox Chemical Co., which it bought in mid-1957.

Examiner Everett F. Haycraft said Clorox already has increased its market share under P&G management. More important than that, he said the entry of P&G into the household bleach field with the largest selling brand is forcing consolidations among the smaller competitors and is creating a trend toward concentration.

His opinion, which is subject to review by the commission, rested primarily on P&G's power in the soap and food fields. He stressed the fact that P&G is one of the nation's biggest advertisers and that it has a big sales force skilled in getting valuable ad space and supermarket display space.

While Clorox already had nearly 49% of the household liquid bleach business at the time it was acquired by P&G, the examiner found that it pursued a live and let live policy, relying largely on national advertising to maintain its leadership. Under P&G, he said, Clorox has used aggressive counter-moves to check any local promotional effort by smaller competitors and it has successfully beaten back efforts of the smaller companies to improve their market share.

Mr. Haycraft acknowledged that his finding in the Clorox case involves something of a landmark in the largely uncharted law governing mergers.

Heretofore most merger cases have involved situations where a producer buys a competitor. P&G's acquisition of Clorox involved diversification into new lines of activity rather than a consolidation in an area where P&G was already established.

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Terming this a "conglomerate type of merger," he said he has had to consider "what the normal result probably will be when a corporation such as Procter & Gamble enters into another industry and utilizes the same methods of operation that it utilized in its prior fields of endeavor."

Drawing on over 6,000 pages of hearing records, and hundreds of exhibits which piled up during lengthy hearings in the case, he spiced his 55-page report with detailed discussions of P&G's merchandising and advertising stretegy.

He reported that P&G promotion experts had an eye on Clorox as far back as October, 1955. A P&G study found that liquid bleaches would continue to dominate the bleach market in volume of sales because they are more economical for consumers. P&G analysts predicted bleaches would continue to grow because:

75% of homes now use a bleach.
Younger women bleach more than do older women.
Automatic washing machine homes use more bleach than do conventional washing machine homes.

P&G's analysis estimated that the 44,000,000-case bleach market in 1955 broke down: Clorox 44%; Purex 16%; others 40%.

In its 1955 study P&G found heavy investments would be involved in breaking in with a new brand. "Taking over the Clorox business, however, could be a way of achieving a dominant position in the liquid bleach market quickly, which would pay out reasonably well," the study said.

After reviewing the earnings history of Clorox this P&G internal report commented: "We understand that Clorox sells through a broker-jobber setup, and that while they are No. 1 nationally, there are many important markets where their share of the bleach market is quite low. We feel that with our sales, distribution and manufacturing setup we could effect a number of savings that could possibly increase the net profit of their business considerably, say to a net profit of $3,000,000 on net sales of $33,000,000."

Two years later—just before the effort to buy Clorox came to a successful conclusion—P&G made another study. Noting that Clorox was advertising at a rate of $5,320,000 a year, this new P&G report observed, "We believe that P&G advertising philosophies and economies applied to an advertising expenditure of this size can be expected to further advance the Clorox business."

The memo acknowledged that, even though P&G's overhead charges "might appear to reduce the profitability or at least offset any economies under P&G management," there remained such possibilities as a 5¢ to 10¢ per case price increase. This could be accomplished without any increase in the retail price, thereby expanding profit, the P&G experts proposed.

The examiner dealt in detail with P&G's advantages in getting store

space and its ability to buy advertising cheaper than Clorox's smaller competitors.

Mr. Haycraft said obtaining and retention of adequate shelf space in retail outlets is a fundamental objective of the 1,800 salesmen in the P&G sales force.

"Each P&G salesman, in addition to selling his line of P&G products, is responsible for obtaining advertising and other merchandising support from his customers and for obtaining retail store shelf and display space for P&G products," Mr. Haycraft reported. "According to the president of P&G," he wrote, "it's one of the salesman's normal duties to make sure to try to secure adequate shelf space for our brands."

Shelf space is generally allocated by grocers on the basis of sales movement of the products and the reputation and merchandising ability of the manufacturer, Mr. Haycraft emphasized.

Advertising and promotion are big factors in determining sales movement, he said. Grocers desire pre-sold products which they do not have to advertise or promote themselves. "P&G brands are pre-sold through extensive advertising."

By associating with P&G, Clorox got big advertising advantages over Purex and other bleaches, he found. Using 1957 figures, he found P&G, an $83,500,000 advertiser, first in the nation in tv and high in newspapers and magazines. Noting that big advertisers get discounts of as much as 30%, he wrote: "To earn these discounts, large advertisers may, as P&G does, combine their advertising in a given medium of all their products.

"This makes the pro rata cost per product far less than the amount to be paid by the one-product company.

"Even a company with many products cannot earn discounts comparable with those of P&G if their combined amount of advertising is insufficient to qualify for a maximum discount."

He said that even at the same advertising allocation of 16.4¢ per case that it established in pre-P&G days, Clorox saved at least $138,500 on its advertising bill in the 12-month period ending June 30, 1958, by buying at P&G rates.

This included an $86,000 saving in television, $50,000 in magazines, $2,000 in newspapers and $500 in radio, he said.

"In addition," he said, "there is evidence which indicates that if Clorox advertising was fully coordinated with the advertising of P&G, even more substantial discount savings could be effected which would enable Clorox to purchase considerably more advertising without increasing its per-case rate budget for that purpose.

"In an industry where all but a few of Clorox's competitors are small firms with limited financial resources," he stressed, "any such amount of potential additional advertising cannot be considered insignificant."

The decision meticulously traced the changes which took place at Clorox after P&G took over. Fred Brown, a veteran of 45 years with

P&G, became exec vp, and other P&G men moved into staff jobs. "One, a marketing specialist with P&G who had been responsible for the promotion of several P&G brands, including Tide, was made a marketing staff associate," he said.

P&G promptly introduced price-off-labels, free premiums, price reducing coupons and reduced-price premiums coordinated with advertising, both in selected areas and nationally, the examiner found. Advertising strategy changes:

In magazines: b&w page units replaced the smaller color ads formerly used by Clorox's old ownership. Some magazines were dropped, and ads in others, such as farm magazines, were reduced. These changes, Mr. Haycraft said, seemed to square with P&G policy, as testified to by its advertising manager, of advertising in magazines with national circulation.

On radio· Less emphasis on radio in accordance with P&G policy. Spot announcements on some independent and unaffiliated stations were terminated and were switched to network stations, which generally offered more audience. "After the acquisition 34 radio stations were dropped from Clorox advertising, of which 27 were independent stations unaffiliated with a network. One new station was added," he said.

On tv: Major revisions and expansions of spot schedules were documented by the examiner with six separate lists illustrating stations dropped or added by P&G after taking over. He estimated P&G trimmed tv spots in nine markets used by Clorox from 5,956.7 seconds monthly to 3,597.5 seconds, cutting out entirely such cities as Huntington, W. Va.; Little Rock; Tacoma; and Wilmington, N. C.

In 80 other markets P&G upped Clorox spots from 43,277.4 seconds monthly to 96,660 seconds. At least 20 new markets appeared on the list, and many of the older markets were increased by 50% to 100%.

"A further indication of a more aggressive sales policy pursued by Clorox after the acquisition of Clorox Chemical Co. by P&G is evidenced by the fact that while Clorox Chemical Co. used only 592,020 seconds of tv spot advertising in the 12-month period prior to acquisition, Clorox purchased a total of 804,060 seconds of tv spot advertising in the shorter 8-month period immediately following the acquisition," he observed.

As an example of the effectiveness of P&G as a merchandising organization, the examiner cited the introduction and customer acceptance of Comet household cleaner. The company spent about $7,200,000 in its campaign for this product, from some time in 1956 through October, 1957, he noted. As a result, by March, 1958, Comet had 36.5% of the national market and was within 0.4% of tying Ajax, the leader in the field.

He recited three instances where Clorox under P&G leadership used retaliatory promotions to fight off competition.

Purex tried a coupon deal in Erie, Pa., where Clorox had over 50% of the market, the examiner reported, giving housewives 10¢ to 25¢ off.

To prevent the Purex entry, he said, Clorox combined an advertising and promotion campaign involving cents-off labels, followed by a deal offering a regular $1 ironing board cover for 50¢ with each purchase. It

ran newspaper ads, provided dealers with display material, and spent $4,000 for tv spots, although it had never used tv in that area before.

"As a result of this campaign by Clorox, under P&G control," the examiner said, "Clorox was successful in nullifying Purex's test market attempt and in preventing Purex from becoming a substantial factor in the Erie County market."

At about the same time, Purex stepped up advertising to test a newly designed bottle and label in Evansville, Ind., the examiner reported. Clorox countered by using price-off labels of 2¢ and 6¢.

Between May and August, 1958, Clorox systematically used deals to meet Purex efforts to introduce its new bottle in Atlanta, Los Angeles, San Francisco, Chattanooga, Nashville and the Pacific Northwest, the decision said.

To substantiate his belief that it was deliberate P&G policy to react violently to any aggressiveness by smaller competitors, the examiner reported that Eric Bellingall, vp of the agency handling Clorox (Honig-Cooper & Harrington, San Francisco), testified: "We drew up a list and had ready a group of these promotions, and we got a list of dates when Purex was moving across with its new bottle."

Continuing, Mr. Bellingall testified, according to the examiner:

"Your honor, you generally don't wait in most instances to let him get too much of an inroad. Now we had this research of promotions that I had discussed and as Trimpe reported that the new bottle had shown up in this territory and so forth, we would then move to counter with one of this pool of things.

"We have used as different devices, price-off labels, the coupon on the bottle, the newspaper coupon and so on, and in some territories, we did not meet it with a promotion, but tried to meet it with whatever increase there was in an advertising schedule.

"Sometimes we won't wait for the full effect of the competitor's promotion to take place with the consumer. That is, if he moves with a promotion, we may elect to move simultaneously or as close to simultaneously as we can. In other instances—and this can depend on holidays and so forth—we wait until we get a better reaction from our distributors in the area and then try to go in to prevent the second purchase. Am I clear there—where a promotion might do a sampling job for the competitor and we would move against the time that we would judge that the women would be going back for a second bottle? We don't want her to be setting up a habit of purchasing the thing that she has been temporarily attracted to by a promotion, so there is a variety of timings in this activity."

These considerations convinced him, the examiner said, that there is "well founded fear" among competitors that aggressive advertising and sales promotion methods of P&G will result in serious injury to their businesses.

Before the acquisition Clorox achieved its position mainly by national advertising, he commented. "However, the evidence indicates it has been the policy of Clorox since the acquisition to meet and meet vigorously the promotions and test marketing of its competitors.

"As heretofore related, these retaliatory tactics have been used especially against Purex, the second largest household liquid bleach manufacturer in the industry."

56(B) Is P&G Being Penalized for Ad Power?*

FTC contends that Procter & Gamble's ad might and marketing skills tend to make its purchase of Clorox monopolistic. If this initial judgment stands, it could affect expansion plans of major advertisers.

Can an advertiser become so skillful in marketing, and have so much money to spend on advertising, that he tends to create a monopoly? The Federal Trade Commission says yes. In an initial decision, it has ordered Procter & Gamble, Cincinnati giant, to divest itself of The Clorox Co. P&G says no and has appealed the initial decision to the full commission.

A test of this basic question of the functions and effects of advertising is now shaping up. The final decision has obvious, and weighty, implications for many of our larger advertisers. And it will be the more significant for a particular reason: It may affect the company that plans to diversify by acquisition, rather than by introducing its own new product lines.

Howard Morgens, P&G president, last week indicated that he regards the FTC view as "completely irrational," without, of course, any mention of Clorox. Advertising doesn't stifle competition—it fosters and "forces" competition, Morgens said in a talk before the National Industrial Conference Board.

"Many of us here can remember in the 1930s and early 1940s when advertising was frequently criticized in academic and Governmental circles for being wasteful, ineffective, and parasitical," Morgens declared. "Today, the pendulum has swung in the other extreme. Advertising is now being criticized for being too effective. It is so effective, we are

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told, that it may lead to monopoly and restraint of competition. This criticism is most certainly based on a misunderstanding, because one of the most fundamental characteristics of advertising is that it forces one to be competitive."

FTC's initial order is an unusual one in that it is based almost entirely on P&G's advertising power and skill. The former Clorox Chemical Co., when it was bought by P&G in 1957, accounted for about 46 per cent of the total dollar sales of liquid household bleach in the U.S. P&G had no bleach product. Thus this is not the customary anti-merger action directed against the pooling of two companies' shares of the market so as to achieve monopolistic dominance.

FTC's contention is that Clorox's already dominant position will be enhanced by the addition of P&G's marketing strength. Under the Clayton Act, an acquisition is illegal if its effect "may be substantially to lessen competition, or to tend to create a monopoly." The hearing examiner, Everett Haycraft, whose opinion is subject to review by the full commission, found that to be the case with Clorox.

FTC CONTENTIONS

"Household liquid bleach producers may be unable to compete with the respondent due to one or more of the following:

"a. Respondent's market position.
"b. Respondent's financial and economic strength.
"c. Respondent's advertising ability and experience.
"d. Respondent's merchandising and promotional ability and experience.
"e. Respondent's 'full line' of cleansing and laundry products.
"f. Respondent's ability to command consumer acceptance of its products and of valuable grocery shelf space.
"g. Respondent's ability to concentrate on one of its products, or on one selected section of the country, the full impact of its advertising, promotional, and merchandising experience and ability."

The initial order emphasizes that Clorox is the only national brand of liquid bleach. Purex, the closest competitor, accounted for about 16 per cent of the dollar market in 1957, compared with Clorox's 46 per cent. The rest of market is split up among hundreds of regional, local and private brands. The order includes testimony by a number of Clorox's competitors to the effect that P&G's superior marketing strength would lessen their ability to compete.

The initial decision also goes into detail on an attempted market test by Purex in Erie, Pa., shortly after P&G acquired Clorox. P&G responded to the test with an intensive "money off" promotion and a premium offer. "As a result of this campaign conducted by Clorox under P&G control," the initial decision states, "Clorox was successful in nullifying Purex's test-market attempt and in preventing Purex from becoming a substantial factor in the Erie County market."

Considerable weight is also given in the decision to P&G's total advertising budget (about $82,500,000 in 1957), which enables the company to get discounts, and to the company's sales and marketing organiza-

tion, which makes distribution less costly and more effective than that of the old Clorox Chemical Co. and of competitors. "Discount rates are available to large advertisers, which can reduce their advertising cost by as much as 30 per cent (or permit them to purchase substantially more advertising for the same amount of money expended)," the decision states. "To earn these discounts large advertisers may, as P&G does, combine their advertising on a given medium of all their products. This makes the pro-rata cost per product far less than the amount required to be paid by the one-product company."

The decision cites numerous markets in which Clorox advertising has been increased since 1957. Because of the strength of some regional brands, Clorox's share of sales has varied considerably by market. The decision states that P&G is apparently determined to build sales in all markets.

As evidence that the effect "may be substantially to lessen competition," the decision cites A. C. Nielsen Co. figures showing that Clorox's share of the market has increased a percentage point or more since the acquisition. FTC attorneys believe that Clorox now accounts for half of the total. P&G disputes this. "Clorox's share of the total household bleach market is, in fact, no larger today than it was at the time of the acquisition," the company contends. The Supreme Court has ruled that there can be no set figure determining whether or not an operation is monopolistic. A company controlling 80 per cent of the market may not be, while a company with less than half may be.

Thus the outcome of the hearing before the full commission may set a major precedent for household-goods advertisers, and advertising itself will be a primary consideration.

Morgens of P&G takes issue with the suggestion that P&G's advertising strength tends to lessen competition. He believes it has the opposite effect.

"For example," he said last week, "advertising will not work effectively if the product is not fully competitive in quality. This forces competition through product improvements.

"Advertising will not work effectively if the product—quality considered—is not fully competitive in price. This forces constant competition through cost-reduction programs.

"Advertising will not work effectively unless the sales and other distributing functions are on their toes. This forces competition through vigorous competitive selling and merchandising.

"Any company with a new product idea can, through advertising, tell the world about it in short order. This opportunity spurs competition through the creation of new products. This, in turn, means that established products must improve in order to live.

"The very essence of advertising is that it is an instrument of competition. If one believes in competition—and we surely do—it is hard

not to believe in advertising. To our mind, it is completely irrational and certainly contradictory to be for competition and against advertising."

William R. Tincher, FTC lawyer who presented the case against P&G, says, "We're not condemning advertising. In fact, our whole case adds up to praise for the power of advertising. We're just questioning how the nation's most powerful promoter uses its economic power to slap down competition."

Tincher is also appealing the hearing examiner's initial decision. He agrees with the conclusion that P&G should be required to divest itself of Clorox, but he feels that the decision does not include the strongest evidence that would support such an order.

P&G and Tincher have until November 4 to file their briefs. Then the full commission will hear the first anti-monopoly case in which advertising power will be the basic consideration.

57(A) Another New Hobble on National Pricing*

BY BERT MILLS†

The pricing latitude and freedom of national marketers is being limited again. The Supreme Court's decision in the Budweiser case gives FTC strong new support in challenging differentials in price of a product in various areas of the country.

Assume you are a policy-making sales executive of Anheuser-Busch, Inc., the St. Louis brewer. Your Budweiser is the No. 1 national and international best seller among premium beers. But right at home you rank only fourth in sales in the St. Louis market.

You know why: A case of Budweiser costs 58 cents more than the standard price of three local brands made by Griesedieck Western, Falstaff, and Griesedieck Brothers. The question: Can you cut your price 58 cents in an effort to capture a larger share of the St. Louis market?

The answer is "no."

This happened back in 1954, and the Federal Trade Commission has been busy ever since making this negative answer stick. A Supreme Court

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† Washington Editor, *Sales Management.*

decision this summer agreed with FTC and reversed an Anheuser-Busch victory in the Court of Appeals. The tortuous legal trail is not yet concluded, for the Supreme Court remanded the case to the Court of Appeals for further proceedings along lines laid down in the Supreme Court decision.

Anheuser-Busch argued that it had acted "in good faith" to meet the lower price of competitors. It pointed out that it did not undercut competitors' prices, merely met them by eliminating the differential between local and national brands. Neither the Court of Appeals nor the Supreme Court ruled on this "good faith" defense.

This issue is still to be fought to a conclusion, but at the moment the FTC finding that Anheuser-Busch did not act in good faith still stands. FTC holds that eliminating the historic differential is not just "matching" a competitive price but in effect is an "undercut" price under the Robinson-Patman Act.

The Robinson-Patman Act dates back to 1936. It deals with price discrimination of products sold across state lines and specifically forbids a seller to "discriminate in price between different purchasers of commodities of like grade and quality . . . where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly . . . or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them."

Under the law, three kinds of defenses to price discrimination charges are permitted: (1) differentials which reflect only differences in a seller's cost of manufacture, sale or delivery; (2) price shifts in response to changing market conditions; (3) price cuts made in good faith to meet an equally low price of a competitor.

Thus the law seeks to draw a line between "discriminatory" prices and "differential" prices. The former is illegal if injury results or could result (and evidence of "injury" is gathered easily). The latter recognizes that competitive forces require some flexibility in prices.

The problem that both sellers and buyers face is in the gray area between "discriminatory" and "differential." One clue to a solution is to be found in the original intent of Congress in passing R-P, which was to prevent a national manufacturer or distributor from being able to eliminate a local competitor by the price-cutting route.

The temptation is strong for a company selling nationally to "subsidize": cut its prices in areas where competition is tough and raise prices elsewhere. The incentive to follow such a course is strongest among sellers of products which compete with a locally made item, and particularly when transportation costs are relatively high in proportion to the value of the product. Beer is a good example.

Here are the facts in the Anheuser-Busch case: Back in 1954 there was a price differential of 58 cents per case between the price of Bud-

weiser in the St. Louis market and the price of three locally brewed brands all sold at the same price. In two steps over a 5-month period, the price of Budweiser was cut 58 cents to match the price of local competitors. Budweiser premium differentials were maintained in other markets. Even before the price reduction in St. Louis, Budweiser had sold there for less than in any other market—$2.93 a case as contrasted with $3.44 in Chicago.

The period of equal prices in St. Louis lasted about nine months, after which Budweiser went up 45 cents per case. Its local competitors almost immediately raised their prices 15 cents per case, re-establishing a substantial differential although not so large a one as before. Before the price cut, Budweiser had only 12.5% of the local market but zoomed to 39.3% before hiking its price. It went from fourth to first place in the local market. After ceasing to match local prices, Budweiser slipped to 21.03% of the market, and to third place.

FTC brought its price discrimination case against Anheuser-Busch in 1955. After hearings, FTC concluded: "As a result of maintaining higher prices to all purchasers outside of the St. Louis area and charging the lower prices, as reduced in 1954, to only those customers in the St. Louis area, respondent discriminated in price as between purchasers differently located."

There were several new elements in this case. One was the fact that Anheuser-Busch did not undercut competitive prices, merely matched them. FTC concluded that in view of the historic differential between premium and local brews, matching prices amounted to undercutting. Another factor over which there has been much argument in the courts was the fact that the Budweiser price was the same throughout St. Louis, with no discrimination between individual outlets.

The latter point proved of key importance to the Court of Appeals, which reversed FTC by holding there was no price discrimination between St. Louis customers, and no competition between St. Louis outlets and those elsewhere that paid a higher price. The court ruled "at the threshold" that there was no injury in the "secondary line" (at retail), and therefore no violation. The Court of Appeals verdict was a narrow one which did not decide whether there had been competitive injury, or whether the Anheuser-Busch "good faith" defense was valid. The subsequent Supreme Court reversal also stopped short of deciding these points, but held that injury could flow from price discrimination at the "primary level" (among breweries).

Joseph E. Sheehy, Director of the FTC Bureau of Litigation, who has long experience in price discrimination cases, discussed with Sales Management some of the lessons of the Anheuser-Busch case.

He made it plain that this decision does not force a national distributor to maintain a single price throughout the country and that FTC's attack was limited to "those price differences which it had reason to believe

affected competition adversely." He added: "Of course, varying prices in different areas are perfectly lawful when they simply reflect cost differences."

"Predatory intent" is a key legal phrase in most price discrimination cases. Mr. Sheehy was asked: "Is evidence of predatory intent essential in an area price discrimination case?"

His reply was: "No. But from my experience, I am of the opinion that it will be present in practically every instance and we, of course, shall put in the available evidence on this point. It is of special importance in establishing that the lower price was not made in good faith to meet the equally low price of a competitor."

The Anheuser-Busch case is by no means the only current proceeding which will bear watching by marketers hopeful of avoiding trouble with Uncle Sam over area price differentials. Two significant cases, still a long way from a final decision, involve Pure Oil and Sun Oil. The outcome of these will have much to do with the constant battle between the major refiners and private brand operators.

Pure Oil and Sun Oil are charged with permitting their dealers in two markets to price their gas within 1 cent of the lower quotation of private brands. The normal differential is 2 cents. One of the issues in the oil case is whether the price cuts were made for defensive reasons. FTC's position is that a "good faith" defense cannot be sustained unless the respondent can prove he acted defensively.

As Mr. Sheehy expresses it: "The good faith defense is one of which a seller may avail itself only as a defensive mechanism in an effort to retain customers and then only in an individual competitive situation."

Mr. Sheehy does not talk about what FTC may do next in attempting to prevent abuses in discriminatory pricing. But the unanimous decision of the Supreme Court in the Anheuser-Busch case should make it clear that FTC has a mandate to step up its activities in similar instances. Marketers would be wise to relate their practices to the new situation they face.

57(B) Anheuser-Busch, Inc. v. Federal Trade Commission,*

Once again the Seventh Court of Appeals has faced the question of whether price cuts by the Anheuser-Busch brewery in the St. Louis local market constituted a violation of Section 2(a) of the Clayton Act. In an earlier hearing of this case this same Court accepted the legal rationale of the Federal Trade Commission's decision that a violation had occurred. The Commission had argued that a price discrimination is a mere price difference which difference constituted an incipient threat to competition. When the United States Supreme Court heard the case on appeal the case was remanded to the Court of Appeals. The Supreme Court indicated that proof of price differentials was merely the "threshold statutory element of price discrimination;" legal demonstration of price discrimination required substantive proof both of a potential competitive injury and also of price differentials adopted for purposes other than meeting in good faith the equally low price of a competitor. In this rehearing, the appellate court examined the evidence to ascertain whether adequate substantive proof of these additional prerequisites for a finding of illegal price discrimination existed.

The Court concluded that an examination of the economic evidence did not support the decision that "present, actual injury to competition" had resulted from the difference of Anheuser-Busch prices *vis-a-vis* its competitors. Statistics were presented to demonstrate the changes in the percentage shares of the local St. Louis market supplied by Anheuser-Busch and by its competitors. However, the Court noted that the Company had not only experienced serious national and local sales difficulties but also had incurred increased production and promotional expenses. These facts, existing in conjunction with the failure of the Commission to explain increases in the market shares of competitors of Anheuser-Busch during the periods of alleged price discrimination, were held inadequate to prove the requisite injury to competition.

The Court held, further, that the doctrine of incipient adverse effect on competition could not be applied against Anheuser-Busch. The evi-

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* By Roy O. Werner, Colorado College. Reprinted from the "Legal Developments in Marketing," feature of the *Journal of Marketing*, national quarterly publication of the American Marketing Association, Vol. 25, No. 5 (July, 1961), p. 83.

dence did not indicate that "predatoriness or buccaneering" had characterized the Company's price policies. Therefore, a projection which contended that market power would be used to accomplish in the future what it had not been used in the past to accomplish was considered indefensible.

The value of competition which the antitrust laws are designed to protect was affirmed by the Court; so, too, was the legitimate use of price reductions as a technique of competition. It is refreshing to find the Court declaring in an approving quotation of the words of the Tenth Court of Appeals (*Atlas Building Products Co. v. Diamond Block and Gravel Co.*, 269 F. 2d 950 [1959]): "Antitrust legislation is concerned primarily with the health of the competitive process, not with the individual competitor who must sink or swim in competitive enterprise."

58(A) Antitrust and Organization Man*

A Climate and a Philosophy Brought Collision in Electric Case

The term "organization man" may well be looked on with suspicion as a too simple, too pat summation of a personality that is complex as any. But the term is meaningful. And while Judge Ganey and some of the attorneys involved in the Government's criminal antitrust cases against various members of the electrical equipment industry sought to dodge the word, they found it a useful one in referring to some individual defendants.

Here were men of substance in their communities and in the business world who were pleading guilty or "no contest" to serious charges of conspiracy. From the court record and from some of the pleas it can hardly be argued that most of them did not know what they were doing. Yet the overwhelming impression is that these men hardly fit the stereotype of law evaders. Almost as pervasive as the almost undisputed evidence of wrong-doing was the question of why. And the simplest, if not the complete, answer goes back to the organization man.

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* By John Bridge, assisted by Harlan Byrne, Ames Smithers, Stanley Penn, and Scott Schmedel. Reprinted by special permission from *The Wall Street Journal*, January 10, 1961. Copyright, 1961, Dow Jones & Co., Inc.

It would seem that in these cases the term not only concerned solid and respectable businessmen, however, but also the whole mores—and what was taken for the mores—of an entire industry. One charge sometimes leveled against the organization man is that he is strong on conformity. If, in the case of the individuals in the electrical cases, what was to be conformed to was a large-scale system of law evasion, they evidently conformed to that too.

Potentials for Trouble

Certainly the climate in which the individuals and companies in the heavy electrical equipment industry operated was loaded with potentials for trouble, and these may well have been the genesis of the legal difficulties which came to afflict a large segment.

The industry is a relatively compact one. Its members range from very large enterprises to relatively small ones. For example, among those indicted in the case were General Electric with $4 billion annual sales and Joslyn Manufacturing and Supply Co. of Chicago with annual sales of less than $2 million and only 45 production employees.

The industry is tightly-knit with many friendships among executives of competing firms; indeed, officials of smaller firms sometimes are former General Electric or Westinghouse executives. The men involved oftentimes had similar educational backgrounds also—college graduates in engineering with a rise through technical ranks into the world of sales. There sometimes existed on the part of the men with the bigger companies an almost protective, big brother attitude toward the smaller companies; this was reciprocated.

And the friendships were not only professional but often quite personal. Trade association meetings fostered these. It was perhaps easy in the camaraderie of these meetings at upper-bracket hotels, amid speeches typical of any association lauding the industry's members and "mission," to draw even closer than business and background indicated. It was perhaps easy, with wives and children present, and acquainted from past conventions, to drift into the belief that nothing could be very wrong in such an atmosphere.

Darkening Grays

Indeed, many of the meetings took place at the conventions of the National Electrical Manufacturers Association and other trade groups. Rather typically, after a conventional and perfectly lawful meeting of some kind, certain members would adjourn for a rump session and a few drinks in someone's suite. It seemed natural enough that mutual business problems would be discussed—specifications, for example—and like as not prices would come up. In time it was easy enough to drift from general talk about prices into what should be done about them—and finally into separate meetings to fix them for everyone's mutual benefit.

Thus purely legal gatherings might have drifted into ones with increasingly dark shades of gray and finally into ones that were pretty black; more than one moralist has noted that it isn't the blacks and whites of situations that get initially law-abiding citizens into trouble; rather it is a progressive inability to distinguish between shades of gray.

It was especially easy in this industry to get into price discussions. The economic position of the various companies has often been one of feast or famine—large orders or none at all for the gigantic pieces of equipment manufactured. Widespread overcapacity after World War II brought intermittent price warring. In 1955, for example, there occurred a price war, known throughout the industry as the "white sale," which saw some prices cut as much as 50%. Profit losses resulted and in some cases red ink. Again in 1957 there was a lesser wave of competitive cutting. At least during the "white sale" General Electric and Westinghouse wound up with most of the business. By reports then current some smaller companies were seeking Government intervention under the Sherman act's anti-monopoly provisions.

The case has a number of ironic aspects but one of the great ones is that men in the large companies believed they had to protect the position of the smaller companies or run the risk of antitrust prosecution. Another is that much of the over-capacity underlying the "need" to fix prices was Government spurred. Fast tax writeoffs, growing out of two wars in two decades, brought the greater capacity for defense that the Government wanted, but they also left the manufacturers with an embarrassing amount of plant.

As a result of this industry makeup, the friendships, and the price-capacity situation, there evidently developed in wide segments the philosophy that collusive activity was ethical, illegal though it might be.

Perhaps an extreme exponent of this view, though expressing a widespread one, is F. F. Loock, president, general manager and sales manager of Allen-Bradley Co. of Milwaukee, who has pleaded guilty.

Looking back on what happened, he says: "No one attending the gatherings (in the electrical controls industry) was so stupid he didn't know (the meetings) were in violation of the law. But it is the only way a business can be run. It is free enterprise."

Price fixing is not usually associated with the idea of free enterprise, with the idea that the market mechanism is to be the ultimate controlling factor, and that this mechanism must remain unimpaired either by individuals or governments. But there is a rationale for the cartel system which permits the general type of collusive activity the electrical men were engaged in. According to it, markets are divided and prices fixed so everyone involved can "get along." Even the consumer is supposed to benefit because stable markets aid stable production and supposedly costs can thus be stabilized.

"Protection against Buyers"

Price competition is anathema to such a setup. Mr. Loock says one reason for the gatherings in his industry was "we also need protection against buyers" and the "illegal meetings gave us such protection."

Elaborating on the need for "protection," Mr. Loock cites one instance in which the purchasing agent of a major Detroit manufacturer told one electrical manufacturer another one had offered a lower price. "By discussing the matter, which was not true, among ourselves, we were able to iron out the problem." He concludes: "I believe that in an industry where money is necessary to continue research and development of products we should have some protection against the crookedness of some buyers."

There was also a feeling in the industry that the antitrust laws were unjust. With a rationale developed of friendly live and let live among competitors, laws designed to force competition seemed "Government interference." The question was also asked in the industry: If such getting together was all right under the old N.R.A. why isn't it all right now? Of course the N.R.A. of the 1930's was declared unconstitutional by the Supreme Court but some say that the industry's philosophy of "getting together" has roots in that era.

But if illegal "stabilization" was an industry way of life, it should not be assumed that relations were continually rosy among competitors, or that all authority in the industry was bent on collusive activity.

Getting together to fix prices did not alter the basically competitive situation prevailing in the industry's markets. Indeed, it often seems some attendance at the collusive meetings was with tongue in cheek as to stabilizing prices, with a real reason of finding out what the rest of the industry was up to in order to get the jump in the next price cutting wave. Too, some of the conspirators pretty much inherited their roles from predecessors, older men who may have felt more of a tug from the industry's "way of life" than they did. In fact there was personal dislike among some of the individual conspirators; perhaps an individual who did not like himself for conspiring had little respect for others also so engaged.

The question of how much top managements knew about the illegal activities is a thorny one; it probably has as many answers as there were companies involved. Most won't comment. But General Electric says its top officials had no part in the conspiracies. Indeed it won from the antitrusters a statement that "the Government has not charged and does not claim" involvement or knowledge by the company's directors, chairman and president.

General Electric offers a green-printed document entitled "Organization and Policy Guide 20.5" which it says was designed to keep just such

illegal activities from taking place. This policy has to be signed annually by management people. Among other things it states:

> No employee shall enter into any understanding, agreement, plan or scheme expressed or implied, formal or informal, with any competitor, in regard to prices, terms or conditions of sale, production, distribution, territories or customers, nor exchange or discuss with a competitor prices, terms or conditions of sale or any other competitive information; nor engage in any other conduct which in the opinion of the Company's counsel violates any of the anti-trust laws.

It was because of violation of this policy that the company ladled out discipline involving loss of pay and grade to 48 employes. The employes disciplined were not always the same as those indicted. Some of those disciplined were not indicted because they had won immunity by testifying before the grand juries. And some indicted were not disciplined, G.E.'s reason being that their violations were prior to the three-years "statute of limitations" on policy "20.5." G.E. also told the employes involved, following an investigation of its own, that they would have to arrange and finance their own defense. This has been a source of bitterness; some other companies provided company lawyers.

Tarnished Images

The event has obviously been a disturbing one for all the companies. G.E., for one, is worried about a tarnished "corporate image." A favorable public impression is highly prized by a concern with the tremendous consumer goods business G.E. has. Because of a history of antitrust citations, mostly prior to 1950, the company has been particularly sensitive to, and aware of, the subject and its impact on that image.

This sensitivity has led to some questions about the widely-publicized G.E. decentralization program.

Launched around 1950, pricing was left to each of the individual divisions, each designed to operate on its own and at a profit. But the violations of the law remained undetected at the higher company levels. Along with new auditing procedures the concern, while not changing its mind about decentralization, now believes some stronger check rein must be devised to forestall such things.

Company spokesmen indicate other things—besides the "lesson" implicit in the discipline meted out—are in the works. These include communications studies and possibly some wider distribution of the directive, "20.5." G.E., along with Westinghouse and Allis-Chalmers, has said it will meet with customers to see if they feel they were overcharged, and try to work out some agreement.

The belief is widespread in the industry that some of G.E.'s top management was aware that hanky-panky had gone on in the past but thought it had been stamped out. President Robert Paxton spent many years in

the heavy equipment end of the business. Evidently the word went out from time to time that "20.5" was to be followed strictly.

Conspiracy in a Cabin

What actually happened evidently was something else. Consider the odd activities of one G.E. defendant in the industrial controls case. The other conspirators held a meeting in August, 1956, in a cabin at an island resort in Canada. The G.E. man was not among those in the cabin. However, he rented one close by, the prosecutor's record states.

So an individual at the conspiratorial meeting was sent periodically to the G.E. man's cabin to consult with him. The G.E. man "agreed to the price increase and so notified the relay man who communicated this fact back to the remainder of the individuals in the first cabin."

It is plain that many of the individuals involved in the conspiracy were under, or felt they were under, heavy pressure to produce and basically believed their meetings, however, clandestine, were ethically justifiable.

An attorney for one company sums it up; "Most of the businessmen and attorneys involved don't think there's a moral issue. This isn't a blind spot in American business. These people honestly think they were getting a fair profit and weren't hurting their customers. Under these circumstances they thought the meetings were justifiable. An unenforced law isn't respected. The Government should have given the companies a warning before cracking down. Now either the companies will conform to the law or the law will be changed.

A look at some individual stories, and at some more of these meetings, illustrates the pressures and difficulties—the law aside—that these organization men ran into.

58(B) The Problems of Price Fixing*

Antitrust Violators Schemed to Only Limited Success

BY JOHN BRIDGES

For a number of years various electrical companies and individuals successfully evaded the antitrust laws. They periodically met to

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fix prices, divide up markets and otherwise cartellize their industry.

But examination of court records of the cases indicates the conspiracy was not a very successful one. Prices were not fixed except temporarily —some one of the conspirators was forever evading the intent of the conspiracy.

Markets were divided somewhat more successfully, but here again the planners of the market were always running afoul of new circumstances which did not fit into the master plan. Certainly the attempt to evade the give and take of the market place meant for the people and companies involved a good deal of unforeseen trouble—the law aside. Red tape flourished; bureaucracy, unofficial and perhaps illegal though it may have been, grew apace. The need for conspiratorial gatherings mounted, all as man-made rules were substituted for competition.

For example, the circuit breaker conspiracy involving General Electric, Westinghouse, Allis-Chalmers and Federal Pacific ran into this problem in 1958—what to do about the entrance onto the scene of a new company? While a new competitor is never an easy matter for an individual company, it was also quite complex for the conspirators.

What happened was that I-T-E Circuit Breaker Co., a factor in other aspects of the electrical equipment business, in 1958 bought out a small company and wanted to enter the circuit breaker field where prices were being fixed and markets allotted on a percentage basis.

"Now, room had to be made for I-T-E," Antitrust Chief Bicks noted in remarks at the arraignment of the defendants. "So a series of meetings began in January of 1958, at which I-T-E indicated its desire for some business. I-T-E had bought a company; it wanted to get into the business.

"The knowledge by I-T-E that it was entering into a pre-existing conspiracy is clear beyond doubt from the pattern of events in early 1958. I-T-E began meeting with the four conspirators that had been going, going more or less smoothly, it's true, with greater or less success, with greater or less mutual confidence that each of the conspirators was living up to his part of the deal, but, nonetheless, one constant conspiracy I-T-E sought to get in.

Overall Policy

"In early 1958 I-T-E secured an agreement as to the over-all pricing policy leaving the allocation aside.

"The nature of that agreement arrived at in early 1958 at a series of meetings was roughly this, that general pricing would be tied to G.E.'s book price, that I-T-E in the southern part of California would be allowed 15% off, that I-T-E nationally would be allowed 5% off . . . Remaining to be finalized was I-T-E's allocation share of the sealed bid business. This was discussed . . . I-T-E was cut in for a share of 4% following a series of conferences, and so from 1958 on everybody cut back a bit except Federal Pacific. . . .

"The three big companies, G.E., Westinghouse, Allis-Chalmers . . . cut down their percentage. Federal Pacific came up from 10 to 15. I-T-E was cut in for 4. That was roughly the pattern of the conspiracy that kept on until the date of the indictment."

I-T-E, seeking to plead no contest in this case, said among other things that it was charged with being only a small factor in the industry for a short period of time. It has told its men to stay away from competitors, that if they're caught in such activities again they'll be fired.

It was one thing, as in the Circuit Breaker case, to agree that a certain company would get a specific piece of sealed-bid business. It was something else again to see that the designated company actually got the job. Here, again, according to Mr. Bicks' statement to the court, is how that worked, amid burgeoning red tape.

"At a working level meeting where a particular big job was up for discussion the percentages initially would be reviewed in light of what was known as the ledger list, which had on it recent sealed-bid jobs given to the other defendants. In light of that ledger list it was decided which of the companies, to keep the percentages constant, would get the job. Now if that company was prepared to say the price at which it was going to bid, then the other companies could discuss among themselves what they would bid, add on for accessories, to make sure to give . . . the company . . . whose turn it was to get the job, the best shot at it.

Numbers Code

"If the company, whose job the particular rigged job was supposed to be did not know the price, there would be later communication, either by phone to homes with just the first names used, or by letter to homes with just first names of senders, with no return address, and this wonderful code . . . The numbers were 1, General Electric; 2, Westinghouse; 3, Allis-Chalmers, and 7, Federal Pacific. What happened to 4 or 5 and 6 until I-T-E came in remains a mystery.

One of the great ironies of the conspiracies was that no matter how hard the participants schemed, no matter how friendly their meetings and communications might be, there was an innate tendency to compete. Someone was always violating the agreements to get more business and this continually called for new illegal plans. For example, price-cutting in sales of power switching equipment to Government agencies was getting out of hand in late 1958. This led to the "quadrant" system of dividing markets.

"So," declared Baddia Rashid, chief of the trial section of the antitrust division, "at a meeting in November of 1958 at Philadelphia . . . they decided that the best way to handle the sealed-bid market was to allocate the business; however, since there were sixteen companies involved in this particular conspiracy it would have been difficult to try to allocate the business as in other cases on a percentage basis, and therefore it was

decided that it would be best to divide the country into four separate geographical areas which were called quadrants—the northwest quadrant, the southwest quadrant, the southeast quadrant, and the northeast quadrant.

"Four companies were assigned to participate in each quadrant, and one of the company representatives in that quadrant was designated as a secretary for the purpose of handling the allocation within the particular quadrant." For example, ". . . in the northeast quadrant . . . meetings were held and it was decided that the business within that quadrant would be allocated in an alphabetical rotation . . ."

This plan did not work to everyone's satisfaction, but rather than fall back on the give and take of the market place which the law requires, the conspirators formulated another plan.

"In September of 1959, however, there were some complaints that had arisen because some companies felt they were not getting a sufficient share of the business . . . it appeared that certain of the quadrants were obtaining more sealed-bid business than other quadrants. Therefore, they held a meeting in Pittsburgh . . . in September, 1959 . . . and they discussed this situation . . . After some discussion it was finally decided that perhaps the best way to do it would be to go back to a national allocation scheme at which each company would be allotted a certain percentage of the business. They all agreed to that plan and each company was then asked to indicate what percentage of the sealed-bid market it felt it should obtain . . . An individual from one of the . . . companies was designated to act as secretary . . ."

But the basic problem, in this industry where price fluctuations were sometimes drastic, was "stabilizing" prices and efforts to bring this about spawned many a difficulty.

Reviewing the Books

In one case one conspirator sneaked in a bid on a product below the price level which had been agreed upon, the Government said. Discussions among the conspirators followed and the offending company was asked to bring in its books so they could be checked. The representatives of the other companies reviewed them and decided "that this company had deviated from the established prices. So the representative from this company indicated that henceforward he would try to control it a little better." Such meetings to keep the co-price-fixers in line were frequent in other cases.

In a case involving industrial controls these meetings became quite numerous. The Government characterizes this case as perhaps the most serious price fixing case encountered in the "past five or ten years." It counted 31 separate meetings from 1955 until the date of the indictment by the defendants, General Electric, Westinghouse, Square D Co., Cutler-

Hammer Co., Clark Controller Co. and Allen-Bradley Co. Mr. Rashid spelled out some of the details for the court.

"The first (meeting) occurred in August of 1955, in Maine. At this meeting all of the defendants except a representative of General Electric were present . . . the individuals present agreed to increase the prices of industrial control equipment by 10% and to put this price increase into effect the following September. They mutually agreed that Cutler-Hammer would be the first to announce the price change and that the rest would follow thereafter.

"There was another meeting in November of 1955 at Atlantic City, New Jersey, in which again all the defendants except General Electric met to discuss the effect this recent price increase was having on the market.

"This was followed by a meeting in April of 1956 at Cleveland, Ohio. Between the November, 1955, meeting and the April, 1956, meeting, General Electric had unilaterally put into effect a price increase. The rest of the companies therefore met in April of 1956 to decide what they would do . . . They had a discussion and decided that with respect to some products they would all follow G.E.'s prices; with respect to other products they would not follow it.

"When this was agreed upon General Electric thereafter retracted its price increase with respect to those products that the other companies did not agree to.

Mutual Complaints

"There was another meeting in May of 1956 at Hot Springs, Va., which was a so-called price-cutting-discussion meeting at which the companies got together to complain against each other when they were cutting prices from those that had been agreed upon."

In a frame-work of fixing prices, there arose also the problem of how to price a new product. In some cases the pricing problem evidently stymied introduction of the product.

At a meeting in May of 1957 at Hot Springs, Mr. Rashid declared, there was discussion of the Double O starter that Cutler-Hammer wanted to market. After general discussion there was a "consensus" reached "that it should sell for about two-thirds of the price of the starter then in existence. They tentatively agreed that this new product should be put on the market . . . on or about January 1, 1960."

The following November some of the conspirators met in the suite of Allen-Bradley at the Traymore Hotel in Altantic City, the Government alleged.

"Cutler-Hammer at this meeting wanted to put on the market a low-quality starter; the other defendants (G.E. was not present) were complaining to Cutler-Hammer that that was a bad practice, that what Cutler-

Hammer should do should be to put on the market a high-quality starter and that the price of that product should be comparable to the price of existing starters, so that as Cutler-Hammer was contemplating reducing the price of this new starter by about 20% or 25%, that would have cut into the market of the starter that was then being marketed."

Then at a meeting on January 9, 1958, the Government said, ". . . they resumed a discussion of the Double O starter and they again criticized Cutler-Hammer for wanting a low-quality starter, and in the end the other companies won and it was agreed that Cutler-Hammer would put out a high-quality starter."

At the same meeting, "Square D Co. was criticized for having put out a new oil-type pushbutton enclosure . . . The reason they were criticized . . . was the price . . . was lower than the prices of comparable products then in existence."

These, then, are some of the unexpected tangles that developed from the electrical equipment conspiracies. No matter how diligently plans and schemes were laid, they somehow could not defeat the basic economic factors, which insisted on responding to the inherent forces of the free market.

This book has been set on the Linotype in 10 point Janson, leaded 2 points, and 9 point Janson, leaded 1 point. Part numbers are in 36 point Huxley Vertical; article and part titles are in 18 point Spartan Medium. Article numbers are in 48 point Huxley Vertical. The size of the type page is 27 by 47 picas.

2483